

The logo features a green square with a white house silhouette on the right side. The text "National Foreclosure Mitigation Counseling Program" is written in white, stacked vertically on the left side of the square.

**National
Foreclosure
Mitigation
Counseling
Program**

National Foreclosure Mitigation Counseling Program

Congressional Update

Activity through August 18, 2009

Executive Summary



Executive Summary

NeighborWorks® America (as authorized by the Neighborhood Reinvestment Corporation Act, 42 U.S.C. 8101-8107) submits this update to Congress to announce that as of August 18, 2009, more than 630,000 families facing foreclosure have been counseled through the National Foreclosure Mitigation Counseling (NFMC) Program, and that thousands of housing professionals have been trained in foreclosure intervention to help address the nation's housing crisis.

The NFMC Program was created by the Consolidated Appropriations Act of 2008 (P.L. 110-161) in December 2007 to address the subprime foreclosure crisis. The legislation named NeighborWorks America administrator of the \$180 million program. On July 30, 2008, the Housing and Economic Recovery Act of 2008 (P.L. 110-289) appropriated an additional \$180 million to the NFMC Program, including \$30 million for legal assistance. An additional \$50 million was appropriated to the program on March 11, 2009 through the Omnibus Appropriations Act of 2009 (P.L. 111-8).

NeighborWorks is proud to have been entrusted to administer the program, and continues to ensure it is done so fairly and transparently. **As of August 18, 2009, the NFMC Program has funded 720,488 units of foreclosure mitigation counseling with 633,294 homeowners nationwide, and has funded 5,237 scholarships to housing counselors for foreclosure counseling training.**

In total, \$381.2 million has been awarded to 166 HUD-Approved Housing Counseling Intermediaries, State Housing Finance Agencies and NeighborWorks organizations through the NFMC Program to provide foreclosure counseling and legal assistance to the nation's homeowners. In February 2008, \$130.4 million was awarded in Round 1 grants to 130 eligible organizations. In December 2008, \$177.5 million was awarded in Round 2 grants to 134 eligible organizations, with 54 of these organizations also being awarded \$25.1 million in legal assistance funds. In October 2009, \$48.2 million was awarded in Round 3 grants to 122 eligible organizations.

Program Administration

NeighborWorks has provided three updates to Congress on the NFMC Program, in October 2008, February 2009 and June 2009. This current report covers program activity from March 1, 2008 through August 18, 2009, with additional information covering the awarding of the third funding round on October 1, 2009.

Round 1 Performance

The first funding round of the NFMC Program has officially been closed out. The 130 Grantees working within this funding round delivered 475,118 units of counseling in all 50 states, the District of Columbia, Puerto Rico and Guam. NeighborWorks initially awarded these Grantees a total of 459,128 units of counseling, thus the Grantees exceeded their unit goal in this funding round.

Each counseling level was set at a maximum dollar amount per unit of counseling. For Round 1, the value of a Level One session was set at \$150, Level Two at \$200, and Level Three at \$350. Converting units of counseling by the pre-set counseling level dollar amounts shows that while Grantees exceeded their goal for units of counseling, they fell slightly short of their goal of counseling by dollar amount as a higher number of clients were reported at Level One than anticipated. Grantees delivered \$95.5 million in counseling, with an additional \$28.5 million utilized to strengthen their counseling programs and outreach efforts.

Round 1 of the program was scheduled to run from March 1, 2008 through December 31, 2008. The majority of Grantees – 101 out of 129 – were not able to complete their grant obligation by the program end date. The NFMC Program granted a six-month extension to these organizations, which extended the grant performance period to June 30, 2009. Grantees that were unable to complete their production goals by this date either had their remaining funds recaptured, meaning the Grantee had to return a specific dollar amount of already disbursed yet unspent funds to the NFMC Program, or de-obligated, meaning the NFMC Program rescinded its responsibility to disburse money awarded to a Grantee. Thirty-five Grantees were unable to complete their Round 1 grant obligation within the extension timeframe and had funds recaptured or de-obligated. In total, \$8,698,780 in unused funds was recaptured and/or de-obligated.

More information regarding the overall administration of Round 1 of the NFMC Program will be provided in a subsequent close-out report, to be delivered to Congress early next year.

Round 2 Performance

The second round of the NFMC Program resulted in \$177.5 million in counseling funds being awarded on December 3, 2008 to counseling agencies around the nation. As of August 18, 2009, the 134 Grantees working within the second round have delivered 245,370 units of counseling, or 42% of the round's goal. In Round 2, the value of a Level One session was set at \$150, Level Two at \$300, and Level Three at \$450. Converting units of counseling by the pre-set counseling level dollar amounts shows that Grantees have delivered \$58.8 million in counseling, with an additional \$14.7 million being utilized to strengthen their counseling programs and outreach efforts.

The funding round officially began on January 1, 2009, and runs through December 31, 2009. As with Round 1, requests for extensions will be granted through June 30, 2010, and NeighborWorks has reserved the right to recapture or de-obligate funds from Grantees who do not utilize their full award amount or make substantial progress toward meeting their production goals.

Legal Assistance Program

The second round of funding also appropriated \$30 million to fund services for NFMC Program clients with legal issues arising from their foreclosure, delinquency, or short sale. Fifty-four organizations were awarded \$25.1 million for this effort on December 3, 2008.

The legal assistance component is expected to fund legal assistance to 45,000 households. As of August 18, 2009, 2,530 homeowners, or 6% of the goal, had received legal assistance through the NFMC Program. Most Grantees experienced start-up challenges, which resulted in production delays. Grantees have solidified their relationships with legal entities that will perform the legal assistance work, and the report rate will increase in the coming months. As with NFMC Program counseling funds, NeighborWorks has reserved the right to recapture or de-obligate funds from Grantees who do not utilize their full award amount or make substantial progress toward meeting their production goals.

Awarding of Round 3 Funds

The Omnibus Appropriations Act of 2009 (P.L. 111-8) appropriated \$50 million to the program, of which \$43 million was to be awarded to eligible Applicants for foreclosure counseling. Demand for counseling funds continues to remain strong; the 124 Applicants requested a total of \$148.7 million in funds. The total amount requested would have been significantly higher, as NeighborWorks placed a cap of \$8.7 million on the amount that could be requested by Applicants. Seven organizations requested the full

amount. The funding was made available on October 1, 2009, in addition to \$8,698,780 unspent by Grantees from Round 1 that was recaptured or de-obligated, to 122 successful Applicants.

NeighborWorks initially awarded \$48,198,780, and the balance of \$3.5 million will be held to be awarded at a later date. It is estimated that the total funds awarded (\$48,198,780) will provide 192,042 units of foreclosure counseling assistance to at least 128,563 homeowners. This funding round will begin retroactively on July 1, 2009 and run through June 30, 2010.

Applications were evaluated based on the extent to which the Applicant had: sufficient demonstrated experience with providing foreclosure counseling services; the ability to certify they met or exceeded the minimum standards for approval as a HUD housing counseling agency; counselors with experience and training in providing foreclosure counseling; the capacity to measure results; goals that were realistic given past performance; sufficient program progress where applicable; adequate marketing and outreach plans; service to low-income and minority homeowners or zip codes; and the ability to provide adequate quality control of services offered. Penetration into areas of greatest need was also considered in the final award determination.

The legislation governing the third appropriation had requirements that NeighborWorks adhered to in the application process. Below are brief descriptions of those requirements and how they were met:

- Award the Majority of Funds to Areas of Greatest Need: NeighborWorks utilized LoanPerformance.com and Home Mortgage Disclosure Act (HMDA) data from December 2008 (the latest data available at the time of the July funding announcement) to determine the areas of greatest need, using the same criteria as was used in the previous funding rounds. In total, 199 Metropolitan Statistical Areas and the rural areas of 30 states were defined as being areas of greatest need. In total, 88% of counseling units were awarded to serve these areas.
- Certification of Absence of Conflict of Interest: NeighborWorks certified that it did not demonstrate any conflict of interest in awarding grants to NeighborWorks organizations. Throughout the process, the same standards, criteria, and review process was used for both NeighborWorks organizations and Intermediary/HFA applications. The process only varied when criteria for Intermediaries and HFAs were not relevant for NeighborWorks organizations, as they do not pass funds through to a network of Sub-grantees, branches or affiliates as do HFAs and Intermediaries. The total awarded directly to NeighborWorks organizations was \$7,747,380, which was 15% of the total amount available to be awarded of \$51,698,780.

Low Income and Minority Homeowners and Zip Codes

In Round 3, the NFMC Program continues its commitment to funding organizations that target outreach to low-income and minority populations. While Round 3 is not controlled by the same statutory requirements as Round 2, the proposed funding for Round 3 reflects a similar high priority on providing resources to these individuals and communities. In Round 3, \$16,234,700 (or 32% of available grant funds) was awarded to 29 organizations that received the maximum possible score on application questions pertaining to their outreach to low-income and minority homeowners and zip codes, and have reported performance in Round 2 of the NFMC Program that indicates successful outreach and service delivery to low-income and minority populations.

A total of 102 Grantees are targeting their NFMC Program foreclosure services to zip codes that are predominately low-income or minority. Of these, 37 plan to perform at least half of their awarded counseling work to these areas. It is projected that 29% of all counseling (or 56,493 units) will be provided to those zip codes in Round 3. In addition to serving communities with high concentrations of minority and low-income people, many Grantees target their services to low-income and minority homeowners,

no matter where they reside. Based on information obtained in the applications, it is projected that at least 43% of all NFMC Program Round 3 counseling (or 82,482 units) will be provided to low-income or minority homeowners. Grantees in the program consistently report an even higher rate of delivery to these populations than predicted within their applications.

Making Home Affordable and the NFMC Program

On February 18, 2009, President Obama announced a new Homeownership Affordability and Stability Plan which will allow homeowners facing foreclosure to refinance or modify their mortgages. Details of this plan and the *Making Home Affordable* program were announced on March 4, 2009.

Homeowners who receive trial loan modifications from their servicer but have a back end debt to income ratio at or above 55% must agree to meet with a counselor from a HUD-approved housing counseling agency or NFMC Program participating agency. This counseling will be considered a new level of counseling under the NFMC Program – “Level Four,” and will be valued at \$450.

It is anticipated that up to four million homeowners will be eligible for assistance through the *Making Home Affordable* modification program, and that of these homeowners, roughly 240,000 to 320,000 will be referred to counseling with a back end debt to income ratio at or above 55%. The *Making Home Affordable* program did not include funding for these services, but all Grantees working in any round of the NFMC Program are able to use up to 30% of their funding to support their Level Four activities.

Since July 2009, the NFMC Program has been holding feedback calls with counselors of Grantees and Sub-grantees to gather feedback on how the *Making Home Affordable* program is being implemented around the nation. Several themes have arisen, which can be broken down into three categories: (1) difficulty trying to communicate with servicers; (2) servicers are not following the guidelines of the *Making Home Affordable* program; and (3) frustrations with the system as a whole. The NFMC Program has shared detailed feedback from counselors with the U.S. Department of the Treasury, servicers, regulatory agencies, the U.S. Government Accountability Office, HOPE NOW, Fannie Mae and Freddie Mac to ensure the *Making Home Affordable* program’s success.

Training Efforts as of August 18, 2009

Since the NFMC Program’s commencement, its training funds have enabled NeighborWorks to strengthen housing counselor capacity in foreclosure counseling by providing scholarships to six NeighborWorks Training Institutes and 74 Place-Based Trainings. **Through August 18, 2009, 5,237 scholarships have been provided by the NFMC Program for counselors to participate in these training opportunities.**

- NeighborWorks Training Institutes: NeighborWorks Training Institutes (NTIs) are “mobile universities” dedicated to providing superior training and continuing professional education in community development and affordable housing. On average, more than 100 courses are offered at each NTI.
- Place-Based Trainings: NeighborWorks hosts regional multi-course Place-Based Trainings (PBTs) with its district offices and with HUD-Approved Housing Counseling Intermediaries and State Housing Finance Agencies. These events enable counselors to receive training locally on a more frequent schedule than the quarterly NTIs. They are designed to accommodate between 200 to 225 participants each, and offer six to eight foreclosure-related courses.

The funding also enabled NeighborWorks to create two e-learning courses: *Foreclosure Basics* and *Understanding and Applying Foreclosure Intervention and Loss Mitigation Tools*, and provided scholarships for counselors to take the courses. Scholarships will be available for those who are eligible to take both online courses through December 31, 2009. **Since March 2008, 3,692 certificates of completion have been earned for these courses.**

Counseling Efforts as of August 18, 2009

Clients Counseled Through the NFMC Program:

- The majority of NFMC Program clients (53%) continue to be minority homeowners (defined as African American, Hispanic, American Indian/Alaskan Native, Asian, Pacific Islander, and clients listing two or more ethnic backgrounds), while minority homeowners make up 27% of homeowners in the country. Whites represent 41% of all clients, African Americans account for 27%, Hispanics represent 21%, and Asians account for 3%.
- Of all NFMC Program clients that hold mortgages with interest rates at or above 8%, 36% are African American, yet African Americans only hold 20% of the nation's subprime mortgages. Eighteen percent (18%) of NFMC Program clients holding mortgages with high interest rates are Hispanic, and 20% of Hispanic homeowners hold these mortgages. Only 2% of NFMC Program clients with these loans are Asian, while they hold 4% of national subprime loans.
- More than half of all clients held a fixed rate mortgage (56%), with 43% of clients holding a fixed rate mortgage with an interest rate below 8%. Thirty-three percent (33%) held an adjustable rate mortgage (ARM). However, only 18% of mortgages nationwide are ARMs.
- For the first time in the program all ethnicities were more likely to hold fixed rate mortgages than ARMs. African American NFMC Program clients were nearly twice as likely to hold fixed rate mortgages (56%) than ARMs (33%); Hispanic clients were slightly more likely to hold fixed rate mortgages (48%) than ARMs (41%); Asian clients were nearly as likely to hold ARMs (44%) as fixed rate mortgages (46%); and White clients were more than twice as likely to hold fixed rate mortgages (63%) than ARMs (27%).
- Thirty-three percent (33%) of NFMC Program clients reside in zip codes where the majority of residents are minorities (27% of the overall U.S. population lives in these zip codes); and 25% of clients reside in zip codes with less than 80% of the Area Median Income (AMI) (20% of the overall U.S. population lives in these zip codes).
- Sixty-six percent (66%) of NFMC Program clients report having household income less than 80% of their Area Median Income (AMI), and 42% report having incomes less than 50% AMI.
- Fifty-four percent (54%) of homeowners seeking NFMC Program counseling reported the reason they are facing foreclosure was a reduction in or loss of income. This percentage has increased steadily throughout the course of the program – the percentage was 49% in the June 2009 update, 45% in the February 2009 update, and 41% in the October 2008 update. Only 5% reported they were in default because their loan payment had increased.
- More than half of all homeowners (54%) receiving NFMC Program counseling services were fewer than 60 days late on their mortgage upon first contact with an NFMC Program Grantee. Thirty-three percent (33%) were current on their mortgage at intake. However, more than one in five (22%) was over 120 days delinquent.

- Roughly 39% of NFMC Program clients paid more than 50% of their income toward housing costs. Twenty percent (20%) paid more than 75% of their income on housing costs. The *Making Home Affordable* modification program dictates that servicers should work with homeowners seeking modifications to reduce their front end ratio to 31% of their income. In the NFMC Program, 71% of clients pay more than 30% of their income to housing costs.
- Sixty-two percent (62%) of NFMC Program clients were between the ages of 35 and 54, and 22% were over the age of 55.
- The NFMC Program has delivered 586,537, or 81%, of the total units of counseling to date to defined areas of greatest need.
- As of August 18, 2009, 16% of NFMC Program clients lived in low-income minority community (LIMC) zip codes. LIMCs are defined as zip codes with a majority population being minority; 30% of minorities being homeowners; and the median income of the zip code being less than 80% of the area median. These 1,284 LIMC zip codes account for 4% of all zip codes where NFMC Program activities were reported. Thus, **homeowners are four times more likely to get NFMC Program counseling if they live in a LIMC.**
- In total, 2,530 NFMC Program clients have been referred for legal assistance that is funded through the program. Clients can receive numerous services from the legal entity with whom they meet. The most common types of legal assistance are a review of the homeowner's case file (83% of clients received this service), advising the homeowner on legal rights and options in foreclosure (79%), and interpreting loan documents (70%).

Urban Institute Analysis of Outcomes

In October 2009, the Urban Institute presented NeighborWorks with the results of preliminary analyses that attempt to measure the effectiveness of the NFMC Program on counseled homeowners. The Urban Institute conducted analyses to determine the following:

- Did the NFMC Program help homeowners cure an existing foreclosure?
- Did the NFMC Program help homeowners receive loan modifications that resulted in lower monthly payments than they would have otherwise received without counseling?
- Did the NFMC Program help homeowners avoid foreclosure?

To answer these questions, researchers used a series of multivariate models to determine the impact of counseling in each of the cases listed above. The models were estimated on a representative sample of the approximately 300,000 homeowners who received NFMC Program counseling during the first twelve months of the program (January through December 2008) and a comparison sample of non-NFMC Program counseled homeowners. Data included detailed characteristics of the mortgage loans and borrowers, which were used to control for differences between the two samples, as well as information on the performance of mortgage loans (foreclosure and delinquency status) through December 2008. This preliminary evaluation of program effects indicates that the initial answer to each of these questions is "Yes," although the magnitude of the effects varies depending on the particular outcome.

Key Findings:

- The NFMC Program was effective at helping homeowners cure an existing foreclosure. Many NFMC Program clients (28%) entered counseling already in foreclosure or entered

- foreclosure after starting counseling. During the first year of the program, counseled homeowners were about 1.6 times as likely to get out of foreclosure, and avoid a foreclosure completion, than they would have been had they not received NFMC Program counseling.
- Loan modifications received by NFMC Program clients resulted in significantly lower mortgage payments than would have been received without the help of the program. Lower monthly payments help reduce the likelihood of a subsequent recurrence of borrower mortgage problems. On average, it is estimated that NFMC Program clients who received loan modifications reduced their monthly payments by \$454 more than they would have without NFMC Program counseling.
 - The NFMC Program somewhat reduced the likelihood that counseled homeowners would end up in foreclosure. Urban Institute estimated that the NFMC Program helped approximately 880 clients avoid going into foreclosure through December 2008. That is, the number of homeowners who were moderately delinquent (two or three months) and experienced a foreclosure would have been 4,975 compared to the 4,095 actual foreclosures estimated. By helping to avoid these foreclosures, the NFMC Program created potential cost-savings of \$33 million between January and December 2008.

The Urban Institute will continue its evaluation of the program by analyzing additional NFMC Program clients and tracking their loan performance over time. A final report covering Round 1 clients will be provided in June 2010.

Counseling Successes and Challenges

The NFMC Program has conducted an in-depth analysis of all successes and challenges counselors have reported as they provide foreclosure counseling to the nation's homeowners. This section of the report is more robust than previous reports, and contains significant information about what counselors face in their work.

Successful Counseling Strategies:

The most frequently reported category of successful strategies pertained to creating a more efficient counseling process (42.3%). Also commonly reported were successes using specific methods of foreclosure counseling (31.0%). A somewhat smaller number of Grantees reported successes in communicating with servicers (14.4%) and conducting client outreach (12.5%).

Overall, the most commonly reported individual success was helping clients create a budget and action plan to get to the root of the client's financial problems. More than 15% of all responses listed this as a successful strategy. The next three most commonly reported individual successes all pertained to implementing efficient counseling processes: holding foreclosure prevention workshops or group orientation sessions (7.2%); increasing capacity by hiring and training additional staff, expanding services, and making services available outside normal business hours (5.8%); and increasing efficiency through time management, standardization, use of technology, and division of labor (5.4%).

Counseling Challenges:

The most commonly reported categories of challenges pertained to working with servicers (47.8%). Grantees reported that the majority of the challenges they face are related to communication with servicers, which accounted for 32.6% of total challenges. Another category of challenges Grantees reported facing when working with servicers was obtaining workable mortgage solutions for homeowners (15.2%). Grantees commonly reported that they encountered challenges with homeowners' resources, as well as counselors' interactions with homeowners (37.2%). Challenges related to program administration accounted for the lowest proportion of challenges (15%).

Overall, the most commonly reported individual challenges reported by Grantees were that homeowners are not prepared for counseling sessions, or do not follow through with counselors (11.8% of all responses); they face general difficulty communicating with servicers (9.8%); and once they do contact servicers, obtaining decisions from servicers on workout packages takes excessively long (8.8%). Of the Grantees that reported this, more than a third reported that responses take at least 60 or 90 days on average.