



**National
Foreclosure
Mitigation
Counseling
Program**

National Foreclosure Mitigation Counseling Program

Congressional Update

Activity through September 15, 2008

Executive Summary



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In response to the nationwide subprime foreclosure crisis, Congress approved and President George W. Bush signed legislation authorizing \$180 million for a National Foreclosure Mitigation Counseling (NFMC) Program as part of the FY 2008 Consolidated Appropriations Bill. The legislation was signed on December 26, 2007 and named NeighborWorks® America (as authorized by the Neighborhood Reinvestment Corporation Act, 42 U.S.C. 8101-8107) to administer the program. NeighborWorks is privileged to accept this responsibility and work with the thousands of housing counselors on the front lines helping American families deal with the financial and emotional impact the housing crisis has on their families and communities. Many of these counselors have worked six or seven days per week and very long hours to be accessible to homeowners in crisis.

The legislation directed NeighborWorks to meet specific criteria in administering the NFMC Program: \$50 million to be awarded to eligible organizations (HUD-Approved Housing Counseling Intermediaries, State Housing Finance Agencies, and NeighborWorks organizations) within 60 days, with funds primarily for use in “areas of greatest need”; \$5 million to be used to build foreclosure and default mitigation counseling capacity; and up to 4% to administer the program. NeighborWorks met and continues to meet all statutory requirements.

In February 2008, 148 eligible entities requested \$348 million in NFMC Program funding through a competitive application process. After reviewing all applications, more than \$130 million was awarded to 130 organizations around the country including HUD-Approved Housing Counseling Intermediaries, State Housing Finance Agencies and NeighborWorks organizations. Fully 86% of counseling units awarded were projected to serve defined areas of greatest need.

As of September 15, 2008, nearly \$55 million in cash has been disbursed to NFMC Program Grantees, and 105,071 homeowners in all fifty states have been provided assistance to address their mortgage delinquency and foreclosure challenges.

Legislative Requirements

The legislation included specific requirements to ensure the financial assistance was distributed expeditiously and to communities across the nation that were affected by the subprime foreclosure crisis. Below are brief descriptions of those requirements and how they were met:

- Award Funding within 60 Days: The legislation was signed December 26, 2007 and required that \$50 million be awarded in 60 days. NeighborWorks held a competitive application process and met this deadline by awarding \$130,438,408 to 130 Grantees on February 24, 2008. NeighborWorks reserved \$37.4 million to award at a later date once performance and need could be further assessed.
- Award Funding to Areas of Greatest Need: NeighborWorks was given statutory direction to “focus on states and areas with high rates of defaults and foreclosures primarily in the subprime housing market”. It consulted with experts and defined areas of greatest need based on numbers and percents of subprime and Alt-A delinquent loans, percent of subprime and Alt-A loans in foreclosure or REO, and percent of overall loans that are subprime in metropolitan and micropolitan statistical areas. In total, 86% of counseling units were awarded to the defined 192 MSAs of greatest need and 29 states with rural areas of greatest need.

- Increase Counseling Capacity: The legislation allocated \$5 million to be used “to build the mortgage foreclosure and default mitigation counseling capacity of counseling intermediaries”. With a strong training program in place, NeighborWorks utilized these funds to expand existing training opportunities and schedule new opportunities throughout the nation. The funding also enabled NeighborWorks to provide scholarships to staff of nonprofit housing organizations, municipalities and their partners to take foreclosure counseling and related courses at these events. Finally, NeighborWorks used the funding to launch its first ever certificate e-learning course - Foreclosure Basics - which is the online equivalent of a course offered at NeighborWorks Training Institutes.
- Grants to NeighborWorks Organizations: NeighborWorks could not grant more than 15% of the appropriation to NeighborWorks organizations. NeighborWorks certified that it did not demonstrate any conflict of interest in awarding grants to NeighborWorks organizations. The total amount awarded directly to NeighborWorks organizations was \$11,417,501, which is 8.75% of the total awarded amount of \$130,438,408, or 6.34% of the total appropriation of \$180 million.
- Administration: NeighborWorks is using the 4% administrative allocation for designing, implementing, managing and evaluating the NFMC Program, including determining the program’s overall structure, creating an effective and transparent application process, serving as steward of the appropriated monies, hiring staff to administer the program, purchasing software and web site design services to collect data on all clients counseled through the program, and competitively contracting with consultants to evaluate the program and provide quality control and compliance monitoring of all NFMC Program Grantees.

Training Efforts

In January of 2008, NeighborWorks America designed an aggressive NFMC Training Program to help non-profit counseling agencies strengthen their capacity to assist homeowners at risk of foreclosure. The \$5 million in NFMC Program funding allowed NeighborWorks to provide scholarships to eligible applicants to attend numerous training events around the country and take an online course. As of September 15, 2008, scholarships have been provided through the NFMC Program to 2,555 nonprofit staff members who provide foreclosure counseling activities and/or are working towards providing foreclosure counseling activities, and 4,608 training certificates in foreclosure-related courses have been issued.

- 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. A total of 390 NFMC Program scholarships have been provided to NTI attendees, and one additional NTI is scheduled for this calendar year.
- Place-Based Trainings: This year, NeighborWorks is hosting regional multi-course Place-Based Trainings (PBTs) with each of its eight district offices and 34 PBTs in partnership with HUD-Approved Housing Counseling Intermediaries and State Housing Finance Agencies. As of September 15, 2008, NFMC Program scholarships have been provided to 2,165 participants to attend these trainings, and more PBTs will be held this calendar year.
- Foreclosure Basics E-Learning Course: The NFMC Program funding enabled NeighborWorks to develop and launch its first ever certificate e-learning course, Foreclosure Basics, which is the online equivalent to the two-day NeighborWorks classroom course of the same name. A total of 1,819 participants have enrolled in the course and 1,078 participants have completed the course and received its certification.

Impact on Counseling Capacity

Quarterly reports received in August from NFMC Program Grantees provided data about the growth in counseling staff capacity through the NFMC Program. This reported growth was substantial. In aggregate, 1,985 people already employed by the 130 Grantees were retrained and reassigned to be foreclosure counselors through June 30, 2008 (an average of 15 per Grantee). Fully 1,035 new foreclosure counselors were hired in the same period, averaging 8 per Grantee, and 2,866 foreclosure counselors received additional foreclosure-related training in the four-month period (or 22 per Grantee).

Counseling Efforts

As of September 15, 2008, HUD-Approved Housing Counseling Intermediaries, State Housing Finance Agencies, and NeighborWorks organizations participating in the NFMC Program have delivered 113,494 units of foreclosure mitigation counseling to 105,071 homeowners nationwide. This report covers the initial months of the NFMC Program, during which production was slower than anticipated due to start-up efforts of Grantees. The number of counseled clients has increased every month, and is anticipated to continue to increase rapidly as the program continues.

The NFMC Program divides counseling services into three categories of specific activities, Level One, Level Two, and Level Three counseling. Level One counseling involves developing a budget and action plan for a client seeking assistance in preventing foreclosure. Level Two counseling entails verifying the client's budget, creating an action plan with steps to address the foreclosure issues and assisting the client in meeting the goals of his or her action plan. Level Three counseling entails meeting the requirements for both Levels One and Two.

NeighborWorks estimates that 466,343 units of counseling will be provided through the NFMC Program. Of the total units of counseling delivered, 70% were at Level One, 8% were at Level Two, and 22% were at Level Three. When comparing these total units of counseling sessions against the NFMC Program goal, the NFMC Program has achieved 24% of the overall goal. By counseling level, the NFMC Program has achieved 32% of the total Level One counseling units and almost 20% of the total year-end Level Two and Level Three unit goals.

Clients Counseled Through NFMC Program:

- More than half (55%) of counseling services were provided to female clients.
- Overall, the largest percentage of NFMC Program clients (30%) were married with dependents.
- The majority of NFMC Program clients (52%) are minority homeowners (defined as African American, Hispanic, Asian or Pacific Islander), while minority homeowners make up 18% of homeowners in the country. Whites represent 37% of all clients, African Americans account for 29%, Hispanics represent 20%, Asians account for 2%, one percent of clients reported having two or more ethnicities, and 11% reported being of other races.
- Sixty-two percent (62%) of NFMC Program clients were between the ages of 35 and 54, and one in five clients (20%) was over the age of 55.

- More than 40% of homeowners seeking NFMC Program counseling reported the reason they defaulted on their mortgage was a reduction in or loss of income. Nine percent (9%) reported they were in default because their loan payment had increased.
- Almost as many NFMC Program clients held an adjustable-rate mortgage (ARM) (44%) as held a fixed-rate mortgage (45%). However, only 22% of mortgages nationwide are ARMs, while 72% are fixed-rate mortgages.
- Half of all homeowners (50%) receiving NFMC Program counseling services were fewer than 60 days late on their mortgage upon first contact with an NFMC Program Grantee. Twenty-eight percent (28%) were current on their mortgage at intake. However, more than one in five (22%) was over 120 days delinquent.
- On average, clients' total reported monthly principal, interest, taxes and insurance (PITI) was \$1,988, and the median was \$1,393. Close to 30% of NFMC Program clients paid more than \$2,000 per month in PITI.
- Roughly 52% of NFMC Program clients paid more than 40% of their income toward housing costs. Twenty percent (20%) paid more than 75% of their income on housing costs.
- As of September 15, 2008, the NFMC Program has delivered 100,579, or 89%, of the total units of counseling to date to areas of greatest need. Of this total, more than 93,000 units of counseling have been delivered to MSAs and roughly 7,000 units have been delivered to rural areas of states. Over \$20 million has been utilized to counsel clients within NFMC Program targeted areas of greatest need.
- Based on information available as of September 15, 2008, the most prevalent counseling outcome was that the client is still in counseling (22%). The NFMC Program is still in its early stages, and it is understandable that many clients will require long-term assistance and counseling to remediate their financial situation. Many other clients (13%) were able to initiate a forbearance or repayment plan, or had their mortgage modified.

Counseling Successes and Challenges

Successful Counseling Strategies:

- Grantees emphasized that reaching borrowers early – before they were 60 days delinquent – often increased the likelihood of a successful outcome.
- Grantees outlined a number of counseling processes and services which increased the likelihood of successful outcomes, including having counselors available evenings and weekends or at all times, and contacting the servicer with the client present.
- Grantees outlined a number of strategies to create more efficient communication and negotiations with servicers. Grantees highlighted persistence as the most important factor to increase the likelihood of positive outcomes. Other strategies included using the HOPE NOW list of loss mitigation department phone numbers, analyzing refinancing plans provided by servicers to ensure borrower feasibility, and following up with the servicer within 24 to 48 hours to ensure they had received electronically-transmitted documents.

Counseling Challenges:

- Overall, Grantees reported the most common challenges they encountered were obtaining a timely response from servicers (18%), borrowers not following through with counselors (12%), and borrowers obtaining loans that were not affordable in the first place (7%).
- Grantees noted several challenges when communicating with servicers, including waiting from 45 days to more than 60 days to obtain a response, and that loss mitigation departments seemed to be understaffed and overworked, documentation faxed or mailed to servicers was lost repeatedly and counselors had to send documentation multiple times, and counselors were connected to a different representative each time they called who proposed different solutions and requirements.
- Grantees also reported a number of challenges when attempting to obtain a work-out from servicers, most notably that loan modifications, forbearance and principal write-downs were offered less frequently than repayment plans. They also noted that servicers generally had a limited understanding of Pooling and Servicing Agreement (PSA) requirements which lengthened the time to obtain a decision about borrowers' options, the refinance plans offered by servicers were not affordable to borrowers, and there was a lack of PSA incentives for servicers to refinance mortgages.

Highlights from Urban Institute Report

As required by statute, NeighborWorks is conducting an evaluation of the NFMC Program, and competitively awarded a contract to the Urban Institute to assess the NFMC Program design and client-level information. The first interim report is included in the Appendix, and contains information on its evaluation of the NFMC Program structure and award determination process, its analysis of the data submitted by Grantees on or before August 1, 2008 covering the time period March 1 – June 30, 2008, and findings from “reconnaissance interviews” with select housing industry professionals, NFMC Program Grantees, and homeowners. Urban Institute will be providing similar reports throughout the duration of the first NFMC Program grant period and will provide further analysis as more data become available.

The first interim report can be found in Appendix F. Key findings include:

- The likelihood of borrowers being able to remain in their homes is significantly raised where third-party financial assistance, such as a second mortgage, is available.
- Respondents do not see large variations in outcomes for borrowers across housing markets. Geographic differences are observed to depend more on state regulations and public policies, and the types of loans and lending practices concentrated in differing markets. Borrower financial circumstances, including falling income and unusual costs (often medical), loan affordability at outset, and loan-to-value ratios have more impact. The use of exotic loans, notably Option ARMs, also has strong implications for successful outcomes.
- Primary obstacles to successful foreclosure prevention and mitigation are of three types:
 - Difficulties in the contact and process of transmission of information among servicers, borrowers, and counselors.
 - Related limitations of capacity of servicers, counselors, and borrowers to fully and promptly carry out their respective roles.

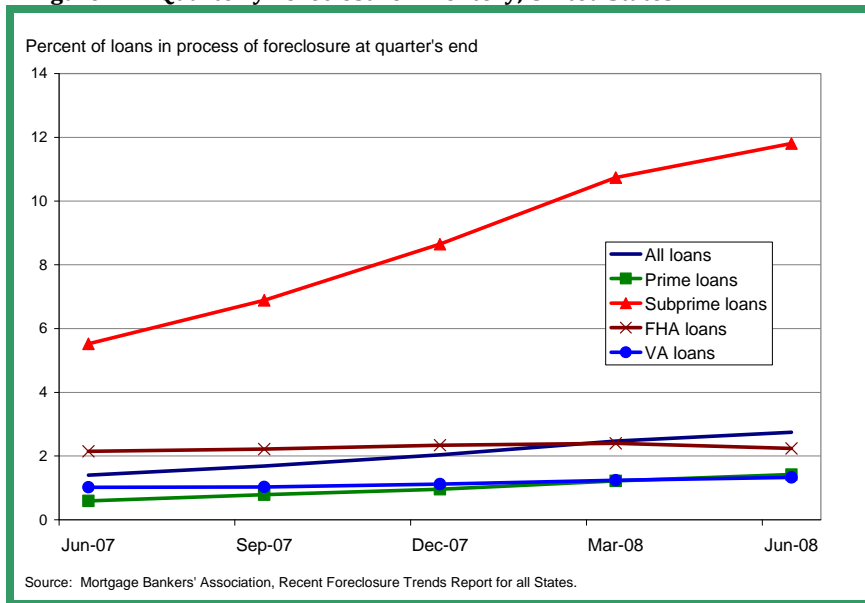
- Constraints by servicers, and lender and investor counterparts, in willingness to make loan modifications yielding mortgage payments borrowers can sustain.
- At least partial solutions in each of these areas have been developed, piloted, or proposed, including on-line and standardized mechanisms for counselor-to-servicer information interchange, more common and wholesale approaches to loan modification, and third-party financing and financial assistance.

Foreclosures in America

More and more American families are facing foreclosure, and the most recent data on foreclosures suggest that the situation is likely to worsen before it improves. The percentage of mortgage loans in foreclosure nationally, according to Mortgage Bankers Association (MBA) June 2008 data, has almost doubled, increasing from 1.4% to 2.8% of outstanding loans between the second quarters of 2007 and 2008 (Figure 1.1). (MBA allowed participants to report what they consider to be their prime and subprime servicing portfolio, since internal servicing guidelines vary.) Subprime loans were much more likely to be in foreclosure than other types of loans. The percentage of subprime loans in foreclosure increased from 5.5% to 11.8% over this same period.

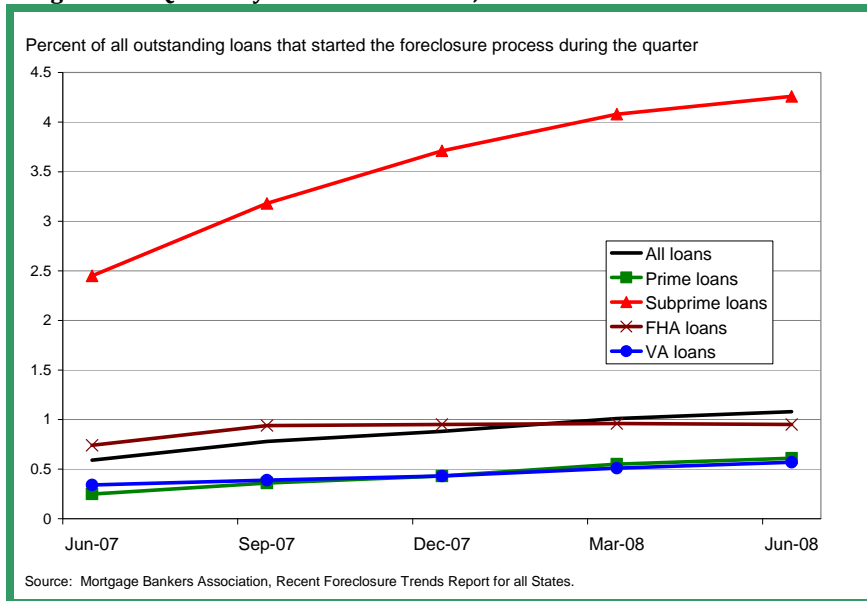
Although prime loans are less likely to be in foreclosure than other loan types, the rising incidence of financial problems and the national real estate market decline has affected this segment of the mortgage market, too. Between the second quarters of 2007 and 2008, the percentage of prime loans in foreclosure more than doubled, rising from 0.6% to 1.4%.

Figure 1.1: Quarterly Foreclosure Inventory, United States



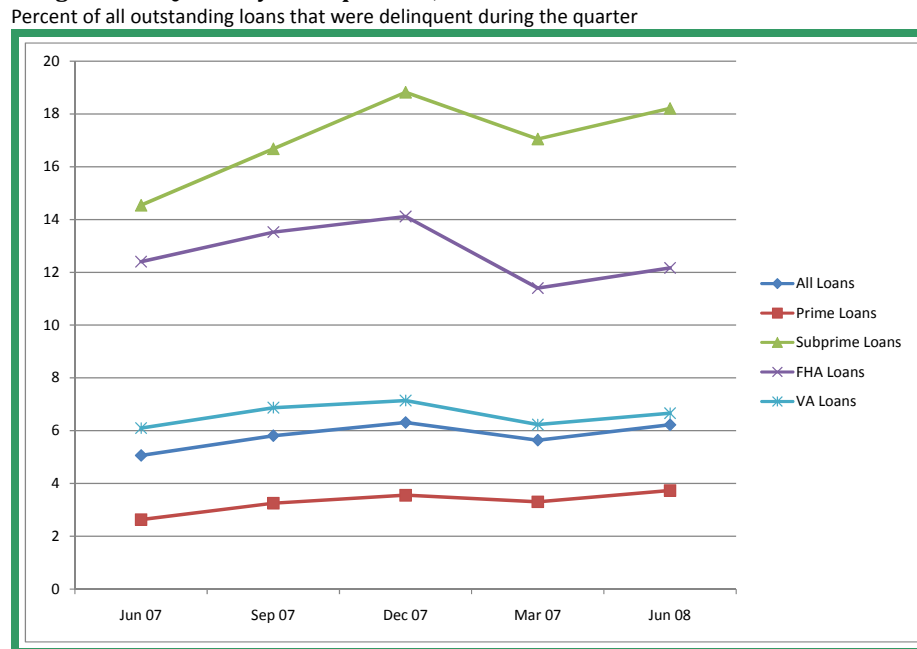
Like loans currently in foreclosure, the percentage of loans for which the foreclosure process is initiated each quarter has also been rising – from 0.6% to 1.1% between the second quarters of 2007 and 2008 (Figure 1.2). As with the foreclosure inventory, the percentage of foreclosure starts was highest for subprime loans, increasing from 2.5% to 4.3% of outstanding loans. Foreclosure starts for prime loans increased as well, however, rising from 0.3% to 0.6% of outstanding prime loans over this period.

Figure 1.2: Quarterly Foreclosure Starts, United States



When tracking all loans that are delinquent, defined as any point past due, subprime loans by far have higher delinquency rates. As of June 2008, according to the MBA, 18% of subprime loans are delinquent, up from 14% in June 2007. FHA loans also have delinquency rates higher than the rates for all loans – fully 12% of FHA loans were delinquent in June 2008, but this rate is only slightly changed from the year before. When looking at all loans, slightly over 6% are delinquent as of June 2008, compared to 5% in June 2007.

Figure 1.3: Quarterly Delinquencies, United States



The state of Florida had the highest percentage of loans in the process of foreclosure nationally, with 6% of mortgages in foreclosure in the second quarter of 2008. This was an increase from 1.4% in foreclosure in Florida in the second quarter of 2007. The state with the second highest percentage of loans in foreclosure in the second quarter of 2008 was Nevada (4.9%), followed by Ohio (4.0%) and California (3.9%). All fifty states experienced an increase in percentages of loans in foreclosure during the past year.

Nevada and Florida had the highest rates of foreclosure starts among all states, with 2.2% of all outstanding loans in each state beginning the foreclosure process in the second quarter of 2008. California and Arizona were third and fourth highest, with 1.8% and 1.6%, respectively, of outstanding loans starting foreclosure in the second quarter.

Mississippi had the highest rate of delinquent loans, at 10.4%. Puerto Rico followed with 9.4%. Michigan had 8.6% of loans delinquent, and roughly 8% of loans in Georgia and Indiana are delinquent.
