
H O P I HOME- OWNERSHIP PRESERVATION INITIATIVE

The Chicago Home Ownership Preservation
Initiative:
A Learning Laboratory

June 15, 2005



NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.



HOME OWNERSHIP PRESERVATION INITIATIVE

A program of

NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.

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1. Background
2. HOPI Accomplishments
 - 2.1 Counseling and Education
 - 2.2 Foreclosures Prevented
 - 2.3 Buildings Reclaimed
3. Evaluating HOPI Programs
 - 3.1 “311” Mortgage Default Hotline and CCRC Counseling
 - 3.2 Home Ownership Preservation Workshops
4. HOPI Leads to New Insights
 - 4.1 Significance of Escrow Accounts
 - 4.2 Importance of Data for Understanding Risk Factors
 - 4.3 Accounting for the Municipal Costs of Foreclosure
 - 4.4 Improving Real Estate Owned (REO) Systems
 - 4.5 Discovering Longer-Term Impacts
5. HOPI Beneficiaries
 - 5.1 Chicago
 - 5.2 NeighborWorks America and Other Non-Profits
 - 5.3 Other Cities
 - 5.4 Private Sector

6. Continued Implementation

7. Conclusion

HOPI Partners

Further Resources



1.0 Background

Chicago's Home Ownership Preservation Initiative (HOPI) is a unique partnership among Neighborhood Housing Services, Inc. of Chicago (NHS), the City of Chicago, the Federal Reserve Bank of Chicago, the nation's leading financial institutions and other non-profit and industry leaders to address the rapid rise in the number of foreclosure filings in the City over the last decade.

The increase in foreclosures in the City of Chicago is not a unique phenomenon. Hundreds of other American communities have experienced similar trends in home mortgage foreclosures. What sets Chicago apart is that NHS capitalized on the willingness of its partners in the mortgage finance industry to sit down with Mayor Daley and financial regulators to search for solutions. Collectively HOPI's leaders began to understand why borrowers in the community were going into default, as well as identify resources available at financial institutions and in the community to help borrowers in crisis.

After an initial conference in February 2003 where the extent of foreclosures in targeted minority and low-income neighborhoods was discussed, HOPI formed into a working committee with regular meetings that attract over 50 participants from across the country. By April of that year HOPI launched a 3-year work plan with the broad goal of leading innovative new approaches in default interventions. Specifically, the work plan goals included providing 1) counseling and education services to 3,000 households, 2) preventing 1,500 foreclosures, and 3) reclaiming 300 foreclosed buildings for homeownership.

The time-sensitivity of this issue encouraged partners to set programs in place quickly. By November 2003 NHS began to offer targeted workshops for borrowers at risk of losing their home. In January 2004, a mortgage default hotline was launched using Chicago's non-emergency "311" service. Callers have the opportunity to receive counseling from the Credit Counseling Resource Center (CCRC), a national alliance of HUD-certified housing counseling agencies operated by the Home Ownership Preservation Foundation. Borrowers are then connected to their loan servicer to explore a potential workout, or referred to local assistance as appropriate.

In mid-2004 NHS released the first of several research papers on foreclosure-related topics which analyze and document critical information related to developing successful default interventions. By early 2005, HOPI lender partners and the City worked to address issues of foreclosed properties at risk of becoming vacant and blighting neighborhoods.

Looking forward to the rest of 2005 and start of the final year of the initial three-year HOPI work plan, the emphasis is now shifting to refining the innovative ideas being cultured, as well as moving towards more widespread implementation. This report documents the progress of HOPI, outlines work in progress, and recommends components of programs worthy of replication and expansion.

2.0 HOPI Accomplishments

As HOPI works to achieve the goals collectively set nearly two years ago, NHS, lenders and the City are learning the most effective ways to reach people. One of the most important lessons learned from HOPI programs so far is the importance of marketing and communications—HOPI must continue to get the word out about the availability and value of default intervention services. Families facing foreclosure cannot take advantage of HOPI’s innovations if they are unaware of the options that are available.

2.1 Counseling and Education

One of the most effective ways to prevent foreclosure is to reach distressed borrowers as soon as possible. This can take the form of one-on-one counseling once a borrower shows signs of trouble, or even be delivered preventatively through targeted post-purchase homeowner education sessions. The HOPI partnership set out to serve 3,000 people over three years and has worked to expand post-purchase education opportunities and foreclosure counseling through active marketing and direct mail.

Through the “311” *Every Minute Counts* mortgage default hotline, 800 individuals from the City of Chicago received foreclosure counseling through March 2005. Another 1,535 came to NHS directly seeking counseling and help for their mortgage problems. In addition, outreach efforts such as post-purchase classes targeted through mailing lists provided by HOPI lenders, NHS staff outreach through its neighborhood offices, as well as events held by local alderpersons, reached an additional 531 borrowers in communities with rapidly rising rates of foreclosure. These figures for the first two years of HOPI are summarized in Table 1.

Table 1

Counseling and Education (3 year goal of 3,000 individuals)	April 1, 2003 – March 31, 2004	April 1, 2004- March 31, 2005	Program Total
“311” Referrals for foreclosure prevention	290	510	800
Attendees at Lender and NHS post-purchase outreach workshops	106	425	531
Individuals seeking foreclosure prevention counseling through NHS	735	800	1,535
Total number of individuals counseled or educated	1,131	1,735	2,866
Source: NHS database; Chicago DOH data tabulations of completed CCRC counseling sessions All numbers are actual counts of people served as recorded on client databases.			

2.2 Foreclosures Prevented

Preventing foreclosures once they are underway is challenging. HOPI has helped to develop collaborative efforts among lenders, NHS and the City to provide counseling, financial assistance and home repairs to families in the foreclosure process. In some cases families can retain their home; in other cases the best assistance is to help the family sell their home to pay off as much of the loan balance as possible. HOPI established an ambitious three-year goal of preventing 1,500 foreclosures. After two years, 940 foreclosures have been prevented, including 500 by NHS and 390 directly by lenders working with HOPI.

As the HOPI partners work together, they are discovering new and innovative ways to help borrowers recover even after the initial foreclosure filing. But, they are also learning about strategies that do not work, and in some cases make the borrower’s situation harder to solve. A major challenge continues to be the number of distressed borrowers who file for bankruptcy. Table 2 shows that NHS *saves* actually decreased since the initial year of HOPI. This is largely because NHS staff found that borrowers who believed bankruptcy would protect their status as homeowners only fell victim to foreclosure later.

Table 2

Foreclosures Prevented (3 year goal of 1,500 foreclosures prevented)	April 1, 2003 – March 31, 2004	April 1, 2004- March 31, 2005	Program Total
Foreclosures prevented by HOPI partners	168	222	390
Foreclosures prevented through “311”	22	28	50
Foreclosures prevented through NHS	325	175	500
Total foreclosures prevented	506	434	940
Source: NHS database; Chicago DOH data tabulations of completed CCRC counseling sessions. Note: “311” foreclosures prevented are based on the establishment of a formal loan resolution or repayment plan, in addition to loans in tracking sample which have paid off or become current.			

2.3 Buildings Reclaimed

Unfortunately, the negative impacts of foreclosure are not over when the family loses their home. A vacant building can become a magnet for crime and lead to the depreciation of surrounding homes. In light of this, the HOPI partnership set as one of its three-year goals to reclaim foreclosed buildings for homeownership. Although this work is time consuming and costly, the pay offs are substantial: neighborhoods retain blocks with affordable housing and avoid deteriorated vacant properties which attract criminal elements that can devastate a community.

HOPI set out to reclaim 300 properties over the three year period. This has proven to be a challenging target, due to the pace and costs of the intensive home rehabilitation needed to preserve distressed homes as community assets. However, Table 3 shows 175 homes have been reclaimed so far, with more in the pipeline at NHS and from HOPI lender partners willing to donate REO properties or sell them at a discount.

Table 3

Buildings Reclaimed from Foreclosure (3 year goal of 300 properties)	April 1, 2003 – March 31, 2004	April 1, 2004- March 31, 2005	Total
Properties reclaimed through NHS direct development - HUD ACA, TBI and REO	55	37	92
Properties reclaimed – NHS purchase-rehab	25	35	60
Properties reclaimed – HOPI lender partners	--	23	23
Total Buildings Reclaimed	80	95	175
Source: NHS database Note: ACA is the asset control areas program; TBI is the troubled building initiative; REO are real estate owned by foreclosing lenders.			

3.0 Evaluating HOPI Programs

HOPI is a platform for developing and implementing foreclosure prevention programs, and it is intentionally designed to promote cross-sector dialogue and learning. Two new program concepts -- the “311” mortgage default hotline and NHS home ownership preservation workshops -- were developed in partnership with HOPI members. As these programs have evolved, the City, NHS and HOPI lenders have gained insights into how to contact and most effectively communicate with borrowers in distress. Each of the programs designed to accomplish HOPI goals required active participation by all partners. Each brought their resources and capacities to bear in the development of these programs and early results indicate that their efforts have been fruitful. Following is an analysis of program outputs, and indicators of their success.

3.1 “311” Mortgage Default Hotline and CCRC Counseling

Since the launch of the *Every Minute Counts* “311” mortgage default hotline service in January 2004, 1,084 callers to the hotline were connected by 311 operators to counselors from the CCRC through the end of March 2005. Of these callers, 841 completed counseling sessions, 804 of whom were residents of the City of Chicago. An additional 37 borrowers residing outside the City were served, most in contiguous communities. The CCRC receives a fee for every counseling session that results in an action plan. More than half of the counseling session fees have been paid for by participating lenders; the remainder have been paid for by the City.

CCRC counselors provide an in-depth assessment of each borrower’s situation and may also serve as a liaison between the homeowner and the lender. CCRC also provides referrals to local resources including job training, legal or tax assistance, or emergency grants and loans. About one in five callers are referred to NHS for financial assistance, intensive counseling or property services.

Targeting Consumers

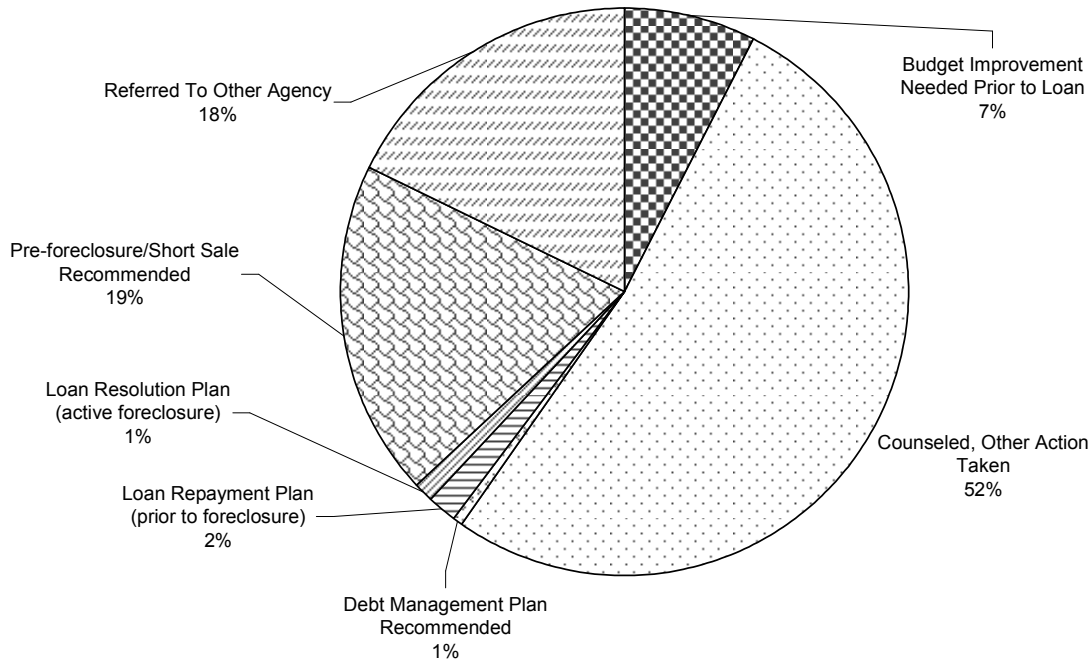
The following is an advertisement that is used on billboards, city buses and in local newspapers to attract callers to “311.” This campaign is an effective way to reach homeowners who might be in trouble and complements *word of mouth* and other direct marketing strategies promoting HOPI services.



Results of “311”-CCRC Counseling

CCRC counselors record what was decided between the counselor and the homeowner at the end of each session. Figure 1 (next page) shows most callers (52 percent) require ongoing help through counseling—provided by CCRC or referred agencies. In 19 percent of cases the best option for the borrower is to sell the home to at least partially pay off the loan. With support, these families can hope to move on from this home, clear up their financial troubles, and allow another family to occupy the unit.

Figure 1
Action Recorded by CCRC Counselors
Based on 804 callers from the City of Chicago
January 2004 through March 2005



Loan Performance After “311”-CCRC Counseling

In addition to the information recorded by CCRC counselors, a sample of loan performance for approximately 10 percent of borrowers is monitored each quarter by HOPI partner lenders. These data are representative of “311” callers referred to CCRC, and provide an ongoing snapshot of how borrowers fare after receiving services.

The data are not yet sufficient to provide an estimate of loan performance; more time and more borrowers are needed. But the early results are promising. Nearly 40 percent of “311” callers referred to CCRC in the sample have either cured their problem or pursued an exit strategy such as a short sale. Based on the 804 individual borrowers in Chicago completing sessions with CCRC through “311” so far, this suggests at least 321 loans may have avoided costly foreclosure proceedings. This represents \$27.3 million in housing preserved in Chicago’s neighborhoods, assuming an average home value of \$85,000.

Only 20 percent of loans tracked for at least 4 quarters have moved into foreclosure since receiving CCRC services. Another 32 percent were paid off. Five percent cured—that is transitioned from delinquent to current. Importantly, 36 percent of loans have transitioned from the borrower having no contact with the loan servicer in one quarter, to being in regular contact with the servicer the next quarter after receiving counseling. This is of significant value to lenders—borrowers actively in contact are able to have access to loan workouts and other strategies which lenders cannot employ if the borrower is “in hiding.”

Table 4 (below) shows the average quarterly transition, or “roll rate”, for all loans in the CCRC loan tracking sample for at least two quarters. Again, the sample is small with less than half being in the sample for a full year. Also, borrowers may transition in and out of delinquency or foreclosure. Yet, these caveats aside, transitions from foreclosure to current are twice historic industry averages for subprime loans.¹ 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 4

Average Quarterly Transition Rates for CCRC Loans in Tracking Sample				
	To:			
From:	30 or current	60-90 days delinquent	Foreclosure	Sold or paid off
30 or current	62%	24%	4%	10%
60-90 delinquent	7%	45%	36%	11%
Foreclosure	6%	0%	82%	12%
<i>Source: DOH Database; mean tabulations of 217 total quarterly transitions from a sample of 75 loans</i>				

Causes of Delinquency Reported to CCRC Counselors

Another valuable aspect of the CCRC database is the ability to code factors which may have contributed to the borrower’s delinquency based on an analysis of counselor notes from the CCRC database. Table 5 (next page) shows most often events beyond the control of the borrower, nor predictable by the lender, are cited as a causal factor. Job loss, health problems, disability and a death in the family are among the trigger events frequently mentioned in counseling sessions.

Other issues raised could suggest a role for interventions. Approximately 16 percent of borrowers cited problems paying taxes, utilities or insurance. These are expenses borrowers can anticipate. In the case of taxes and insurance, escrow accounts can play a valuable role. Other issues are more related to borrower behavior and a lack of financial management. In these cases budget counseling and financial education may serve a valuable function.

¹ Citigroup Global Markets, “Delinquency Transitions in Subprime Loans—Analysis, Model, Implications” March 17, 2004.

Table 5

Most Frequently Cited Factors Related to Delinquency	
Job Loss	32%
Health Crisis / Health Insurance	25%
Taxes, Utilities or Property Insurance	16%
Problem with Rental Unit	14%
High Cost Auto or Consumer Loan	12%
Disability	10%
Overspending	10%
Death in Family	10%
<i>Source: Sample of 75 CCRC cases Jan 2004-Dec 2004.</i>	
<i>Note: Factors may be combined; percentages exceed 100%</i>	

CCRC records also indicate about one-in-three borrowers seeking services are in bankruptcy, typically Chapter 13. Because of the approvals required by the bankruptcy administrator, these cases require more time and reduce the options available for problems related to the mortgage. The fact that “311” tends to actively engage borrowers with their loan servicer and bring in other resources for borrowers in bankruptcy further underscores the impact of this approach.

Approximately one-in-five borrowers receiving counseling from CCRC are referred to the NHS for further services. NHS records suggest the majority of these borrowers obtained a special loan or workout which resulted in a family being saved from foreclosure. The “311” program provides a unique triangulation between the borrower, CCRC's phone-based counseling and the NHS's local presence.

3.2 Home Ownership Preservation Workshops

Many HOPI partners from the servicing and lending industries stressed the importance of establishing a positive relationship with borrowers before a homeowner experienced a delinquency. Those homeowners would likely seek help earlier in the process, increasing the chances of a positive outcome. NHS, which has a presence and connection in several high foreclosure areas, can help foster these relationships through workshops.

NHS workshops are an important strategy for reaching out to borrowers in targeted areas in Chicago. Working with lenders, NHS sends invitations to mailing lists provided by HOPI partners, seeking to make contact with borrowers and provide preventative education. Homeowner’s workshops provide the borrower an opportunity to interact with the servicer in a non-crisis situation. Homeowners learn what to do when faced with a financial problem even before they might need the information.

Between April 2003 and March 2005, the NHS has offered six Homeowners Workshops, and 531 homeowners have attended. The customers invited to these workshops have accounts that range from current to 120 days delinquent, but are not currently in bankruptcy or currently have a mortgage workout in place. Workshops are held in targeted NHS neighborhoods in the evenings

at a local institution, such as a church. Through contributions by servicers, NHS offers incentives to attend in the form of a meal and a \$25 gift certificate to a local grocery store chain.

Discovering the Knowledge Gaps

In 2005 NHS instituted a survey of the knowledge and perceptions of participants. With each workshop, additional data is being collected, but 75 surveys were completed in the first half of 2005. While again preliminary, these data (below) suggest the value of locally-based outreach efforts. 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.

Survey Results:

- 42% have never talked to their mortgage servicer
- 33% of borrowers making late payments have never spoken with their servicer
- 45% believed: “If I cannot pay my mortgage, I can declare bankruptcy to protect my house”
- 51% did not know: “My lender may be able to reduce my mortgage payment if I lose my job or become ill”
- 24% believed: “My mortgage lender or broker is required to provide me with the lowest interest rate possible”
- 41% relied on rental income for at least part of their mortgage payment.
- 36% did not have an escrow account for taxes and insurance
- Only 22% have an emergency account for expenses in case of illness or job loss
- 80% are interested in having repairs or improvements to their home.

Source: NHS Chicago survey of 75 workshop participants, 2005

4.0 HOPI Leads to New Insights

The NHS workshops and “311” calls not only provide a valuable service to individual borrowers, they also generate a growing catalogue of data on borrower attributes and behavior. Similarly, efforts of NHS to track foreclosed properties and preserve homes at risk of abandonment both help neighborhoods and raise the level of knowledge in the field regarding distressed housing. This work has prompted some interesting research avenues, and undoubtedly will continue to trigger further inquiries.

4.1 Significance of Escrow Accounts

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” callers (discussed in Section 3.1) began to suggest 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 shows that borrower’s reported use of escrow accounts is in fact uneven. Table 6 (below) shows 65 percent of borrowers with mortgage amounts between \$25,000 and \$300,000 have an escrow account. However, half as many borrowers (32 percent) with interest rates on their loans rates of 9 percent or higher report having escrow accounts. Lower-income borrowers are less likely to report having escrow accounts, but borrowers of FHA loans are more likely to report having an escrow account. Borrowers over 55 years of age are less likely to report having an escrow account established than other borrowers. Overall it appears some of the borrowers who might most benefit from having an escrow account do not have one.

Table 6

Percentage of Mortgage Borrowers With Escrow (escrow for taxes, insurance or both)						
Mortgages \$25,000 to \$300,000						
Mortgage Interest Rate	< 6%	6-6.9%	7-7.9%	8-8.9%	9% +	Total
All Borrowers Reporting Escrow	46%	67%	74%	66%	32%	65%
Income < \$40,000	50%	69%	70%	66%	34%	62%
Income > \$40,000	44%	66%	75%	66%	30%	67%
Borrower Age 55+	39%	56%	56%	62%	35%	54%
FHA Borrowers	73%	84%	86%	90%	50%	83%

Source: HOPI tabulations of the Survey of Consumer Finances, 2001

Omitting escrow makes monthly payment burdens appear smaller, and therefore are more attractive to cash-strapped borrowers. 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. Borrowers who cannot afford a monthly escrow payment are also unlikely to be able to budget for payments for property taxes and property insurance.

In order to illuminate the potential benefits for the lending industry for wider adoption of escrow accounts, NHS has 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. Several HOPI lender partners are providing data for the project, and an initial analysis is under way. Results will be presented at future HOPI events, with a goal of informing the industry.

4.2 Importance of Data for Understanding Risk Factors

One factor facilitating the formation of the HOPI project in Chicago is the availability of foreclosure data. The Chicago Foreclosure report tracks Cook County courthouse *lis pendens* filings and produces a database available for its clients. The National Training and Information Center (NTIC) has annually purchased this data and produced widely-cited reports on foreclosure trends.

This data enabled the City and the NHS to determine which neighborhoods were most at risk and identify which lenders were most appropriate for inclusion in the partnership. As other communities have learned about HOPI, they have sought similar sources of data. Access to foreclosure data is not uniform across the nation, however. While available as part of the public record, few communities have electronic data with detailed information on the loan and borrower.

In 2004, as HOPI partners began to explore applying lessons learned in other cities, such as, Detroit Atlanta, Baltimore and Columbus, the issue of a lack of data became more important. Working with NeighborWorks® America (formerly the Neighborhood Reinvestment Corporation), NHS engaged in conversations with economists from the Federal Reserve Board and Harvard University's Joint Center for Housing Studies about new ways to track foreclosure "hot spots." Through the efforts of HOPI, the Federal Reserve Board is now pursuing private vendors of aggregated foreclosure data which may be useful to identify future foreclosure trends in Chicago and other cities.

4.3 Accounting for the Municipal Costs of Foreclosure

The HOPE Foundation, a HOPI partner, recently released a report on the costs of foreclosures in Chicago at the June 2005 Conference of Mayors meeting. This report focuses on the costs of foreclosure for municipalities by developing a typology of costs under various scenarios.² 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 individual foreclosure-related activities.

² William C. Apgar and Mark Duda, "Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom" May 11, 2005. See: <http://www.hpfonline.org/>

The report suggests 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 7 (below) shows the 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 7

Five Common Foreclosure Scenarios		
Scenario	Estimated Municipal Cost	City Agencies Involved
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+
<i>Note: costs are net of any funds recovered for foreclosure-related services.</i>		

4.4 Improving Real Estate Owned (REO) Systems

Over the last two years, HOPI partners have made clear their intention to "do the right thing" for neighborhoods when it comes to REO disposition efforts. But lenders also have an obligation to their investors to dispose of REO properties in a financially prudent manner. Most vexing are situations where investors find the costs of foreclosure exceed any expected return from REO sales, and therefore "walk away" from a property. The building often becomes abandoned, unwanted by the owner or lender. This situation is costly for the neighborhood and the municipality in which the property is located. Over the last year, NHS has had increasing success in presenting alternatives to "walk away" properties. In FY 2005, using strategies such as deep discounts, market rate sales, and assignment, NHS gained access to ten properties through the REO divisions of HOPI partners. NHS works through the foreclosure, gaining access to the property and turning it into a community asset.

NHS has also learned first hand of the impact of REO brokers, asset managers and appraisers have on the REO process. REO is not part of the state licensing curriculum nor are there specialized forums for professionals to receive training on this important part of the mortgage lending process. While NHS has made strides towards understanding the REO process, more work must be done to get all parties in the foreclosure and REO process well-informed regarding effective and responsible disposition. Opportunities exist to expand educational efforts for REO professionals on the impact of their decisions on communities, and to learn of innovative, financially viable alternatives to "walk away" properties.

4.5 Discovering Longer-Term Impacts

As HOPI expands its research and development efforts, it is clear longer-term follow up is required to better understand the impact of services on troubled borrowers. In late 2005, NHS will conduct a series of consumer follow-up surveys to NHS default intervention clients, “311” callers served by CCRC, and clients referred by NHS to lenders for workouts. These surveys will address issues of the borrower’s perception of the service they received, how they have implemented the counseling, education or financial assistance received, and how well they are able to make their mortgage payments. The surveys should also provide insight into what sort of contact strategy works best in different situations and with different types of borrowers. The goal of this work is to develop a more precise understanding of borrower behavior and knowledge, as well as provide a gauge of how well borrowers are doing.

These surveys will be complemented by focus groups organized by the NHS. Scheduled for late 2005, the focus groups will build on the survey results to document how mortgage borrowers recall making the choices they did, how they perceive their loan servicer and lender, the extent to which they engage in crisis planning or manage trigger events, as well as the use of escrow accounts. This qualitative data will provide further details which will help refine default intervention programs and guide the overall HOPI effort.

Finally, using Cook county courthouse records, NHS will study the impact of HOPI services on properties. By tracking properties known to receive HOPI services, the current owner, the financing and status of the home can be documented. This will allow better evidence of the extent to which HOPI is successfully preserving properties in targeted neighborhoods. It will also provide important lessons in cases where interventions were unsuccessful.

5.0 HOPI Beneficiaries

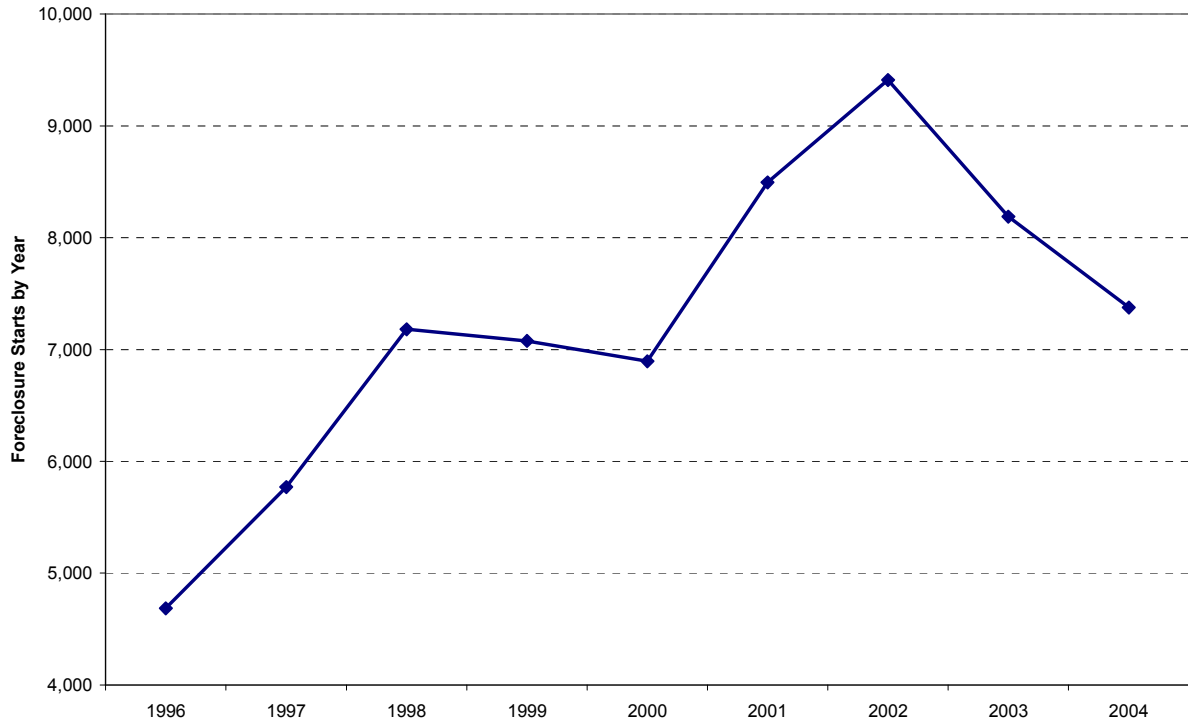
As a “laboratory for research and development”—combining lessons from local government, non-profits and industry—HOPI aims to create influential models that are national in scope. The research produced through the HOPI partnership over the last two years will continue to inform and influence outcomes for the non-profit and for profit lending community around the country.

5.1 Chicago

HOPI has had a powerful impact on Chicago and there is increasing evidence that its efforts are paying huge dividends. As of March 31, 2005, more than 2,800 individuals received foreclosure prevention counseling or education, and foreclosure has been prevented for nearly 1,000 Chicago homeowners. In addition to families *saved*, NHS and HOPI partners have restored 175 houses to homeownership, which improves blocks and stabilizes communities. A recent tabulation of these data (next page) suggests foreclosure trends in Chicago are improving after several years of skyrocketing increases. Since the peak in 2002, foreclosures have decreased 22 percent by 2004.

Figure 2

City of Chicago Foreclosures 1996-2004



Source: NTIC

This effort has attracted the attention of the Mayor’s office, the Federal Reserve Bank, and the Press. In the last two years, the local print media has covered HOPI programs 12 times, financial trade press four times and the HOPI partnership has been profiled by PBS, a local television station, and by the Federal Reserve in its regional publications. This local media attention helps boost interest in HOPI services and motivates families to seek assistance from NHS or by calling “311”.

5.2 NeighborWorks® America and Other Non-Profits

The learning provided through the Chicago HOPI initiative is being used to inform and educate other non-profit housing providers through NeighborWorks® America (formerly Neighborhood Reinvestment Corporation). The NeighborWorks® Center for Foreclosure Solutions was developed by NeighborWorks® America in 2004 to craft recommendations and best practices for foreclosure prevention for replication across the county. The Center has convened a series of community meetings with regional Federal Reserve Banks, private mortgage companies and non-profits in high foreclosure communities to discuss strategies for curbing foreclosures. These events included a statewide conference in Columbus, Ohio in February, 2005 and an event at the

Federal Reserve Bank in Atlanta, Georgia in May, 2005. These events—and publications related to these events -- have led to increased awareness of foreclosure issues in other communities.

In addition, starting in August 2004, the NeighborWorks® Training Institute began offering train-the-trainer workshops for non-profits on foreclosure prevention. Key players from the HOPI partnership have served as trainers for these events (as well as presented their experiences across the NeighborWorks® network). These sessions provide a venue for community development corporations from around the country to learn about HOPI's strategies used in Chicago. These events also provide a forum for facilitating collaborations to address the unique challenges each community faces in preventing rising foreclosures.

5.3 Other Cities

The Chicago HOPI partnership continues to be the standard for private and public institutions looking for solutions to the problem of foreclosure. NHS staff and HOPI partners have been asked to present at symposia and panel discussions hosted in other cities, including Indianapolis, Detroit and Baltimore. In addition, HOPI and NHS leaders have been featured at events hosted by the Fannie Mae Foundation, Federal Reserve Board, and the Mortgage Banker's Association as experts in the field of foreclosure prevention. NHS staff members were recently invited to brief all of the Federal Reserve's Community Development officers on strategies developed by HOPI.

One indication of the quality of work done by HOPI was the participation in a recent online training session sponsored by the Fannie Mae Foundation through KnowledgePlex hosted by Bruce Gottschall and Michael Collins. The Foundation reported that this session garnered the highest participation level of any online event they have ever hosted.

Also in June, Mayor Richard M. Daley spoke at the Conference of Mayors annual meeting about the progress made through the HOPI initiative, further spreading the word about the importance of foreclosure prevention to the top local elected officials in the country. These conferences and meetings serve as an opportunity for two-way learning as new issues and concerns arise inside and outside of Chicago. These events also will spread the information and innovations of HOPI to other markets.

5.4 Private Sector

While disseminating the HOPI model and its lessons is an important activity, equally important is how HOPI partners are adapting their own business practices and models based on lessons learned. By adjusting private sector practices, more homeowners at risk of foreclosure can be reached than simply through public sector interventions.

One HOPI lender partner has combined their loss mitigation unit with their collections department, making loss mitigation options

Homecomings Financial, a unit of GMAC-RFC, has adjusted its operations for the Chicago market by placing two of their loss mitigation staff *in* the NHS of Chicago office.

This arrangement benefits the servicer and borrower in two important ways. First, it gives the servicer a better understanding of the local market and the pressures affecting foreclosure outcomes. Second, in sharing office space with NHS of Chicago, Homecomings representatives are more aware of City and NHS resources available to assist in closing the financing gap of some of the trickier loan modifications. In addition, NHS of Chicago benefits by having a servicer on hand to work with clients who are also Homecomings borrowers.

available to borrowers earlier in the delinquency process and increasing the likelihood of a positive outcome for the borrower and the lender. Since this change, the institution has experienced a fifteen percent increase in foreclosure prevention. Another partner in the HOPI initiative has focused on creating a post-purchase curriculum as a way to decrease the probability of foreclosures ever being started.

These private sector policy changes have the capacity to affect thousands of borrowers across the country. As we move forward with the HOPI initiative it will be necessary to find ways to replicate them and turn them into established best practices for more lending institutions.

6.0 Continued Implementation

As HOPI partners engage in innovative loss mitigation practices they find that the solutions are complicated and multifaceted. In addition, the causes and consequences of foreclosure are not static; they continually change as new mortgage products become common place and fringe players change their tactics. Because of this, the work of the HOPI partnership is not nearly complete. Some of the initiatives currently underway include:

Combating Fraudulent Transactions and Brokers

NHS staff members are working with HOPI lenders and servicers to identify and combat the fraudulent practices that are becoming increasingly common in high risk neighborhoods. This includes inflated appraisal prices, condominium fraud, and restricting access to capital for brokers who repeatedly put families into loans they cannot afford. Proposals to combat these and other abuses include establishing a centralized ineligible broker list for the lending industry to report brokers with patterns of bad loans or high rates of early payments and foreclosures. Other proposals include developing a system to check that the property appraiser is actually involved in transactions.

HOPI subcommittees are also working on mechanisms to help lenders and servicers identify condominium fraud quickly so that the units can be consolidated and the perpetrators prosecuted. In May 2005, NHS and the City of Chicago hosted a meeting where the issue was first addressed and HOPI lenders and servicers have been actively identifying and turning over fraudulent condominium properties to partner non-profits.

Establishing Model Practices

As the housing and real estate markets change, so do the forces that cause foreclosure. In order to stay in front of the curve of foreclosure, model practices for lending in high-risk neighborhoods need to become well-established. In the next year of the HOPI partnership, NHS staff will work with federal and state regulators along with HOPI partners to identify mortgage lending trends and develop recommendations on ways to mitigate the damage emerging lending practices might create for fragile communities.

One problem that continues to plague many financial institutions and mortgage counselors is the constraints created by mortgage securitization agreements. The HOPI partnership provides a venue to for a cross-industry exploration of these challenges with the goal of finding solutions in partnership with regulators.

Expanding the HOPI Partnership and Deepening Participation

Over 25 institutions have participated in the HOPI partnership over the last two years. While this number is impressive, the challenge is now to expand the ways in which individual partners are engaging in HOPI and implementing its lessons. Every institution has challenges, due to internal and market pressures. Some find it natural to adapt their servicing while others find it a better fit to address prevention at the point of origination. But each is also on the road to developing more effective foreclosure mechanisms, and establishing and following best practices in lending and servicing. One challenge that has appeared across institutions has been the ability to move properties quickly and effectively through the REO process and into the hands of not-for-profits or owner occupants. In the coming year, the HOPI partnership will work to identify further solutions to these and other of the thorniest issues lenders, local government and mortgage counselors encounter during the foreclosure process.

Continuing Research and Learning

Finally, HOPI will continue its research and development role. New research on escrows, surveys of delinquent borrowers, longer-term data on properties and qualitative interviews and focus groups will provide new insights, hopefully spawning more innovations which can help families avoid foreclosure. Lender participation is essential to developing meaningful and fruitful information that can inform future endeavors.

7.0 Conclusion

HOPI has made some exciting progress in the last two years. It has counseled or educated close to its initial goal of 3,000 homeowners, prevented nearly 1,000 foreclosures, and preserved 175 homes for homeownership. The ancillary benefits to HOPI's programs include saving the City, lenders, and servicers millions of dollars in foreclosure and related costs; minimizing devastation to families in financial trouble; and saving neighborhoods from the havoc and devaluation that accompanies acts of foreclosure. The work of HOPI benefits both the neighborhoods and the industry working together to improve communities and sustain homeownership. In addition, valuable research has been produced that informs the partners and raises the profile of HOPI.

Perhaps most importantly, HOPI has accomplished all of this by gathering stakeholders around a business table – together, as partners – to develop solutions that will have real impact. In the coming year, HOPI will continue its efforts, and work to expand implementation of its existing work. HOPI partners are committed to developing real solutions to foreclosure in Chicago and then spreading those solutions to other markets. HOPI will continue to serve as a critically important platform for challenging the industry, preserving homeowners and protecting neighborhoods.

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Fannie Mae Corporation
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GMAC-RFC/Homecomings Financial
HSBC – North America

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National City Bank
NeighborWorks® America
New Century Mortgage Corporation
Option One
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HSBC – North America
J.P. Morgan Chase
Litton C-Bass
National City Mortgage
New Century Financial Corporations
Ocwen Federal Bank F.S.B.
Option One
Washington Mutual

Prevention/Origination Group:

Ameriquist Mortgage Company
Citigroup
City of Chicago, DOH
GMAC-RFC/Homecomings Financial
HSBC – North America
NeighborWorks America

ABN AMRO
Ameriquist Mortgage Company
Bank One, a J.P. Morgan Chase Company
Citigroup
City of Chicago
Countrywide
GMAC-RFC/Homecomings Financial
The Homeownership Preservation Foundation

REO Group:

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Suntrust Mortgage
Washington Mutual

Additional Partners:

City of Chicago Department of Housing
City of Chicago 311 Center
City of Chicago Mayor's Office
Federal Reserve Bank of Chicago
FDIC
NTIC

Further Resources

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www.jchs.harvard.edu

National Training and Information Center <http://www.ntic-us.org/>

NeighborWorks® America foreclosure prevention website:

<http://www.nw.org/network/comstrat/foreclosure/default.asp>

NHS Chicago website: <http://www.nhschicago.org/>