

National Foreclosure Mitigation Counseling Program Evaluation

Final Report Rounds 1 and 2

Executive Summary

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EXECUTIVE SUMMARY

The National Foreclosure Mitigation Counseling (NFMC) program is a special federal appropriation, administered by NeighborWorks® (NW) America, to support a rapid expansion of foreclosure intervention counseling in response to the nationwide foreclosure crisis. As this is a federal appropriation, NW America must inform Congress and other entities of the NFMC program's progress. The Urban Institute (UI) was selected by NW America to evaluate the NFMC program.

This report presents the final results from UI's evaluation of the first two rounds of the NFMC program (people receiving counseling in 2008 and 2009), including a detailed analysis of program outcomes first described in preliminary reports of November 2009 (Mayer et al.) and December 2010 (Mayer et al.). According to those reports, homeowners receiving NFMC counseling avoided entering foreclosure, successfully cured existing foreclosures, and obtained more favorable loan modifications.

This report updates previous analyses and also includes revised models of several homeowner outcomes for NFMC clients counseled in 2008 and 2009. These new models use an improved comparison sample selection design, which addressed potential issues raised by reviewers of earlier analyses, and a better method for controlling for possible selection bias in the NFMC sample. The additional analyses in this report include models of non-modification cures, non-modification redefaults, and foreclosures avoided.

Modeling Findings

The multivariate statistical analyses are based on a sample of close to 335,000 loans and answer the following four questions about the NFMC program's performance:

- Did the NFMC program help homeowners receive loan modifications with lower monthly payments than homeowners would have otherwise received without counseling?
- For homeowners that cured (i.e., brought to current) a serious delinquency or foreclosure through a loan modification or some other means, did NFMC counseling help them remain current on their loans longer and more frequently than they would have been without counseling?



- For borrowers with seriously troubled loans, did NFMC counseling increase their chances of obtaining a cure and then sustaining that cure and avoiding redefault?
- Did the NFMC program help reduce the number of completed foreclosures?¹

The first three questions were examined in previous preliminary analyses of the NFMC program, although the questions of whether homeowners were more likely to remain current on their loans or cure serious delinquencies or foreclosures were looked at only in the context of loan modification cures. This final report expands the sustainability and cure analyses to include borrower self-cures not involving a loan modification. The fourth question, how the NFMC program influenced foreclosure completions, is evaluated for the first time here.

In addition, this report includes analyses that test whether NFMC program effects changed over two very different periods during this evaluation. The first is the period before the start of the Home Affordable Modification Program (HAMP), January 2008 through March 2009; the second is the period beginning in April 2009, when HAMP first became available. These analyses were meant to determine whether HAMP affected counseling impacts, either positively or negatively.

According to the evaluation of round 1 and 2 NFMC program effects, the answer to each of the four outcome questions above is “yes,” as summarized in table ES-1. In many cases, the program effects are very substantial. Further, NFMC counseling retained, or even increased, its effectiveness in helping troubled homeowners after HAMP began.

¹ This analysis replaces previous models of foreclosure cures that measured the NFMC program’s effect on the likelihood of a loan being taken out of the foreclosure process without going to a forced sale. That earlier analysis did not address whether the loan permanently avoided a foreclosure sale. Measuring whether a foreclosure is completed better indicates the program’s impact on helping owners avoid losing their homes.



Table ES-1: NFMC Program Impacts on Mortgage Outcomes

	Pre-HAMP	Post-HAMP
Average additional reduction in monthly payment from loan modification	\$176	\$176
Reduction in redefault rate nine months after curing a serious delinquency ^a or foreclosure		
<i>Loan modification cures</i>	67 percent	70 percent
<i>Non-modification cures</i>	49 percent	32 percent
Change in relative odds of curing a serious delinquency ^a or foreclosure		
<i>Loan modification cures</i>	89 percent higher	97 percent higher
<i>Non-modification cures</i>	32 percent lower	32 percent lower
Percentage of loans in serious delinquency or foreclosure both curing and sustaining cures	2.5 times higher	1.6 times higher
Reduction in foreclosure completions	No effect	36 percent

^a Serious delinquency is three or more months of missed payments.

Loan Modifications

NFMC clients that had their loans modified in 2008 and 2009 and received counseling assistance paid \$176 a month less, on average, than non-counseled clients that also received loan modifications. This average payment was 7.8 percent less than it would have been without counseling and translated into an annual savings of about \$2,100 per counseled homeowner. The ability of counseling to obtain lower monthly payments for clients was the same both before and after the start of HAMP, indicating that counseling retained its positive benefits even with the existence of HAMP loan modification guidelines.

This average additional payment reduction of \$176 is about \$90 lower than the NFMC program effect reported in December 2010's preliminary study. The final, lower estimate was based on models that included loan records missing information on a borrower's debt-to-income (DTI) ratio and credit score at loan origination, which had been dropped from previous modeling analyses. While removing observations with incomplete data is standard practice, omitting those loans biased upward the estimated effects of the NFMC program on payment reductions from loan modifications.² To avoid this problem, the DTI and credit score variables were transformed into categorical data, which included a "missing" category so all loans could be included in the

² Loans with missing DTI ratios or credit scores were likewise included in the analysis of the other program outcomes discussed in this report.



model estimations. Retaining these loans significantly affected the final results because (1) they accounted for a large share of the total loans (about 40 percent) and (2) borrowers without reported credit scores or DTI ratios received, on average, loan modifications with lower payment reductions.

Sustainability of Modification Cures

The combined effect of counseling from both a larger payment reduction and other counseling assistance substantially reduced the relative odds that borrowers would redefault after receiving loan modifications bringing seriously delinquent mortgages (those with three or more months of missed payments) or foreclosures back to current status. Translated into percentage terms, counseling lowered redefault rates after a modification cure of a typical loan by 67 percent or more.

Although a small part of this effect (about a 3.5 percent decrease in the relative odds of redefault) was attributable to counseling's effect on the size of monthly payment reductions, the great bulk of the sustainability benefit resulted from other impacts of counseling, such as helping borrowers improve their financial management skills, assisting them in managing relationships with servicers and investors, and providing other types of support. Nonetheless, although very few modifications included this feature, the relative odds of redefault were reduced by an additional 20 percent when the loan modification curing a serious delinquency or foreclosure included principal reduction.

Both before and after HAMP, redefault was a major problem for homeowners who did not receive counseling but a far reduced problem for borrowers who obtained NFMC counseling support. The impacts of counseling on sustainability differed very little before and after the start of HAMP, with counseling reducing the relative odds of redefault by 78 and 74 percent, respectively. The effect of reducing loan payments through modifications was miniscule in both periods, with the other effects of counseling decreasing the relative odds of redefault by 77 percent before HAMP and 73 percent after HAMP. In percentage terms, the rate of redefault nine months after the modification cure was reduced by 67 percent pre-HAMP and 70 percent post-HAMP. Finally, the combination of the two federal interventions (NFMC counseling and the implementation of HAMP) lowered redefault rates for borrowers curing loans through modifications from 66 to 11 percent (an impressive 83 percent reduction) over the course of nine months for a typical counseled loan.

Sustainability of Non-Modification Cures

NFMC counseling also increased sustainability substantially for loans cured *without* a loan modification. Though the sustainability effect was somewhat smaller than for counseling and cures with modifications, the impacts were still large for a single program intervention. Overall, counseling reduced the relative odds of redefault for non-modification cures of loans in serious delinquency or foreclosure by about half. The counseling impact was larger before



HAMP than after but still substantial in both periods. Before HAMP, counseling reduced the relative odds of redefault after a non-modification cure by 66 percent. After the start of HAMP, the relative odds of redefault for counseled borrowers were 39 percent lower than for non-counseled borrowers.

Measured by the probability of redefault, in the pre-HAMP period, counseling lowered the redefault rate for a typical NFMC-counseled loan cured without a loan modification from 71 to 36 percent, or 49 percent, over nine months. For non-modification cures obtained once HAMP was in place, borrowers that received counseling had a cumulative redefault rate of 26 percent after nine months, compared with 38 percent for those without counseling, meaning that counseling lowered recidivism for these cures by nearly 32 percent.

Modification Cures

In addition to increasing the sustainability of cures, NFMC counseling improved client outcomes by increasing the likelihood that a borrower would bring a loan in serious delinquency or foreclosure back to current status. NFMC counseling came close to doubling the odds of modification cures compared with those for non-counseled borrowers. For those entering counseling before HAMP, the relative odds of obtaining a modification cure from a serious delinquency or foreclosure increased by 89 percent, compared to the odds without counseling assistance; after HAMP, the odds increased by 97 percent.

Translating these relative odds to cumulative percentages of modification cures, after 12 months (the average observation period for loans after they became troubled), 8 percent of homeowners before HAMP receiving counseling assistance had modification cures, compared with 5 percent among borrowers without counseling—a 60 percent increase with counseling. After HAMP, 17 percent of homeowners with counseling assistance cured their serious delinquencies or foreclosures after 12 months, compared with 9 percent without counseling—an 88 percent increase attributable to counseling.

Non-Modification Cures

The impacts of counseling on non-modification cures were very different from those for modification cures. Counseling assistance was associated with *fewer* non-modification cures, overall and at all counseling levels. The relative odds of a non-modification cure decreased over 30 percent for counseled loans both before and after HAMP. A likely interpretation of this finding is that some people who would have obtained non-modification cures without counseling were, with counseling, able to obtain cures with modifications instead. This shift reduced non-modification cures for people with counseling. The effect was especially strong once HAMP modifications became available (and set standards for other modifications), particularly among people who received more counseling, which was often needed to bring about successful modifications (according to the observers we interviewed).



Achieving and Sustaining Cures

A crucial outcome for borrowers is curing loans in serious delinquency or foreclosure combined with sustaining those cures (i.e., avoiding redefault). When the results of the sustainability and cure analyses are synthesized, they demonstrate that NFMC counseling nearly doubled the rate of curing and sustaining troubled loans. Among counseled borrowers, 12.7 percent of seriously delinquent or foreclosed loans were cured and sustained without redefault, compared with only 6.5 percent among non-counseled borrowers' loans—a ratio of 1.96.

The ratio of counseled to non-counseled cure-and-sustain rates was higher before HAMP (2.5), but even after HAMP was under way, NFMC counseling boosted the rate of sustained cures by 1.6 times. Counseling in both periods helped people become current on their loans and stay that way. NFMC counseling and the HAMP environment together raised the rate of sustained cures by a factor of five, compared with results achieved without counseling assistance before HAMP.

Although many homeowners that cured their serious delinquency or foreclosure stayed current, particularly those who received loan modifications through counseling, cures were generally very limited. Because of its opposite and thus partially offsetting effects on modification cures and non-modification cures, counseling affected total cures of seriously delinquent and foreclosed loans relatively modestly. In the post-HAMP period, even with counseling, modification plus non-modification cures totaled only 24 percent of significantly troubled loans. Therefore, while counseling and HAMP help homeowners in a number of ways, many homeowners' problems persist.

Avoiding Foreclosure Completions and Cost-Benefit Analysis

According to the previous analyses, NFMC counseling had several benefits: it generated loan modifications with larger payment reductions, it helped homeowners cure seriously delinquent loans, and it produced more sustainable cures. To determine if these effects helped clients remain in their homes, the latest analyses estimated the impact of counseling on the likelihood of foreclosure completion, which would result in the homeowner losing his or her home.

Between January 2008 and December 2010, 10.3 percent of round 1 and 2 NFMC clients had a foreclosure completion.³ Without counseling, this percentage would have been 1.15 times as great. Extrapolating the modeling results from the estimation sample to all clients who received counseling in rounds 1 and 2, the NFMC program resulted in 13,000 fewer foreclosure completions by the end of 2010. In other words, the NFMC program prevented

³ Foreclosure completion includes foreclosure sale, short sale, and other involuntary losses of a home through foreclosure-related actions.



nearly one in seven foreclosures that would have been completed without counseling. These results were driven by NFMC performance after HAMP, which reduced the total number of foreclosure completions by 36 percent. Before HAMP, there was no statistically measurable difference in foreclosure completion rates between counseled and non-counseled borrowers.

Since foreclosure sales create costs for homeowners, lenders, local governments, and society at large, avoiding foreclosures generates cost savings. Each foreclosure prevented by the NFMC program was estimated to have saved an average of \$70,600 in avoided costs. These savings included \$10,000 in moving costs, legal fees, and administrative charges for homeowners; \$40,500 in deadweight lender loss to society, which represents 36 percent of the total lender loss; \$6,500 in local government administrative and legal costs; and \$13,900 in reduced neighboring property values.⁴

Assuming the 13,000 loans that avoided foreclosure through December 2010 because of counseling do not complete foreclosure at some point in the future, the NFMC program has helped save local governments, lenders, and homeowners \$920 million, which is about \$1,200 per client served by the NFMC program in 2008 and 2009. These savings translated to 3.0 times the total round 1 and 2 NFMC funding provided to support counseling services to these homeowners. When the full costs of providing counseling services to these clients, including funding from other sources, is accounted for, the savings represented a total counseling cost-benefit ratio of 2.4.

Findings and Lessons from the NFMC Program

This evaluation looked comprehensively at the NFMC program, its effects on improving outcomes for troubled homeowners, and its broader impact on foreclosures. The NFMC program made key contributions to addressing the foreclosure crisis in four main areas, which are summarized below.

Improving Outcomes for Troubled Homeowners

The ultimate measure of success of the NFMC program was whether the assistance provided by NFMC-funded Grantees and Subgrantees actually helped troubled homeowners achieve better outcomes, such as avoiding a foreclosure sale or obtaining a mortgage modification that allowed them to remain in their homes. Determining whether the program helped homeowners attain positive outcomes, therefore, was the main focus of the NFMC evaluation.

As noted in the summary of the modeling findings above, the analysis of NFMC's activities and the subsequent performance of counseled and non-counseled mortgages found

⁴ See pages 98–101 of the main report for further details on the derivation of these cost figures.



consistent, compelling, and robust evidence that the program has provided substantial benefits to homeowners facing foreclosure. In almost all cases, counseling has remained effective in obtaining positive outcomes, even after the Home Affordable Modification Program was introduced in April 2009.

Building National Capacity for Foreclosure Mitigation Counseling

The NFMC program also helped increase the nation's capacity to assist troubled homeowners in several ways. First, and perhaps most important, by providing more funds to counseling organizations, the program increased national capacity to provide foreclosure counseling services. Based on the responses from two web-based surveys (included in appendices D and E), Round 1 NFMC program Grantees and Subgrantees saw nearly three times more clients between 2007 and 2008; round 2 Grantees and Subgrantees saw 76 percent more. Many NFMC-funded Grantees and Subgrantees also enlarged their geographic area of coverage.

In addition, the NFMC program helped build the national capacity of foreclosure mitigation counseling by improving counselor training⁵ and by establishing a members' web site and message board that has allowed counselors to share questions, best practices, and other information across a national network.

Challenges and Best Practices

As this report is being written, millions of homeowners in the United States are still facing the possibility of foreclosure and the loss of their homes. Counseling organizations across the country are still working with many of these homeowners to allow them to avoid foreclosure and, hopefully, keep their homes. Through the course of the NFMC program evaluation, researchers gathered extensive information from counseling agencies, through web surveys and interviews, on the challenges of obtaining good outcomes for their clients. This information has uncovered many strategies and best practices that the more successful counseling organizations have employed, providing valuable lessons for the housing counseling field.

Grantees and Subgrantees interviewed as case studies for the evaluation identified the two largest problems in achieving good outcomes for clients: (1) servicers were not sufficiently responsive and (2) clients, when entering counseling, were typically facing financial difficulties usually resulting from a loss in income. Successful counseling organizations have developed strategies to attempt to overcome these two main issues and to interact with clients so good outcomes are maximized.

⁵ The NFMC legislation specifically authorized a portion of the appropriation to be spent to "build the mortgage foreclosure and default mitigation counseling capacity of counseling intermediaries through [NW America] training courses" (Housing and Economic Recovery Act of 2008).



Increasing servicer responsiveness

Counseling staff cited obtaining good servicer response to client efforts to resolve troubled loans more frequently than any other challenges and obstacles in their work (although by only a narrow margin over borrowers' loss of income). Staff most frequently mentioned three challenges as severe: slow response or lack of response by servicers to applications for loan modifications, servicers losing documents submitted, and servicers switching clients' cases from one staff person to another.

According to our case study interviews, successful counseling agencies responded to challenges in working with servicers in five ways.

- *Reducing the chaos and delay from lost documents.* Difficulties transmitting the necessary documents for loan modifications and other solutions, confirming their receipt, avoiding their loss at the servicer end, and identifying missing documents so they can be re-submitted have been a major obstacle to effective foreclosure prevention. In nearly every case, well-performing counseling agencies have invested substantially in addressing this issue, including adopting HOPE LoanPort™ or their own electronic systems for tracking documents and negotiation.
- *Developing contacts and relationships with servicers and learning whom to go to for cooperation, escalation, and quick response.* Successful counseling organizations consider building contacts and relationships with servicers crucial. Organizations need to know the right people to call for cooperative problem-solving, finding non-foreclosure solutions, and moving stuck cases forward.
- *Knowing how servicers are likely to assess a proposed modification, forbearance, or other proposal.* Assessing what servicers will approve and creating proposals that work for the client and the servicer are important counselor goals. Some counselors focus on getting there with their initial proposal; others anticipate frequent negotiation. In both cases, a key ingredient is a counselor who understands how underwriting works so he or she can provide realistic options that the servicer will entertain.
- *Following up persistently.* Counselor persistence is central to many aspects of preventing foreclosure, including submitting applications and proposals to servicers, monitoring progress, and pursuing solutions that work for their clients. But persistence also includes negotiating solutions creatively. Successful counselors never take “no” for an answer, if analysis suggests that preventing or mitigating a foreclosure is at all feasible.
- *Structuring single-servicer events, live contact between servicers and clients, and live contact between servicers and counselors.* Direct in-person contact between



servicers and counselors and homeowners can be valuable, if structured properly. The key is to put together the necessary pieces for actual loan modifications and other solutions to be reached *on site, during the event*.

Dealing with major income reductions

Counselors indicated that most clients seek foreclosure prevention services because of a drop in income, often from a job loss. Although such cases are difficult to address, counselors use several strategies when working with clients with an income reduction.

- *Conducting a detailed crisis budgeting analysis.* The first step when working with clients who have experienced an income reduction is to develop a crisis budget. One benefit of developing a crisis budget is that it acts as an opening to credit counseling by prioritizing expenses. By putting expenses and income down on paper, clients can easily see how they are spending their money, which they can continue to monitor even after their income increases.
- *Pursuing forbearances.* Getting loan modifications approved for clients with no income is problematic. If a job or income loss is temporary, counselors can pursue forbearance agreements with servicers. In particular, a forbearance plan can work well for people who expect to be reemployed, but such an approach is not appropriate for clients on fixed incomes.

Working successfully with clients

Counselors can only be as effective as their clients. Given the demand for foreclosure prevention services, effective organizations get clients proactive and engaged in the process.

- *Ensuring that clients bring all required information to the initial one-on-one counseling session.* Counselors stressed that servicers will not make any decision on a client's proposed loss mitigation solution, which often include a request for a loan modification, directly. Rather, servicers often require authorization forms from lenders, budgets, and hardship letters, and these requirements can vary by servicer. Agencies have instituted strategies (checklists, pre-counseling orientation meetings) to ensure that clients bring the required documents to their first counseling session so the counselor can contact a client's servicer during that session.
- *Empowering clients so they successfully manage the foreclosure prevention process.* Agencies do not have the resources to manage all aspects of a client's case. Therefore, counselors said that it is critical to work with a client who knows about getting loan modifications or other outcomes, has a realistic understanding of the options available given his or her circumstances, and will provide loan servicers with the documents and follow-up needed to reach a decision. Many



agencies, as a first step, provide details about the foreclosure process during an initial group counseling session. The group sessions helps clients start thinking about a preferred solution, which may not include retaining ownership of their home.

Conclusion

The National Foreclosure Mitigation Counseling program started in 2008 to help homeowners facing foreclosure. To measure how well the program met this objective, the Urban Institute conducted a three-year evaluation of the program. The evaluation consisted of several activities to help understand the program's effects, including interviews with mortgage industry and program participants, reviews of program reports and documents, surveys of foreclosure counseling organizations, and an in-depth analysis of outcomes for counseled mortgages.

The NFMC program has been an important and successful tool in addressing the record number of troubled homeowners who have faced, and continue to face, loss of their homes because of foreclosure. While counseling cannot solve to the foreclosure crisis, it nonetheless has helped homeowners achieve better outcomes, which in turn has benefited the country by reducing the numbers of nonperforming and failed mortgages, avoiding social costs associated with foreclosures, and allowing more people to retain their homes.

As the housing crisis continues to play out over the coming months and years, the information provided through this evaluation will help guide policymakers and practitioners toward solutions that will provide much-needed help to the nation's struggling homeowners.