The Home Ownership Preservation Initiative in Chicago (HOPI)

Reducing Foreclosures through Strategic Partnerships
Presentation
December 11, 2007 : Promoting Foreclosure Solutions

Bruce Gottschall, Executive Director
Neighborhood Housing Services of Chicago
Foreclosures Threatened Chicago’s Neighborhoods

Analysis by National Training and Information Center (NTIC)
November 2004
In 2006 foreclosure starts increased to 10,290.

* Community Area numbers and names appear in the table on page 7.
NHS Case Study of Foreclosure Impact:

Case Study of Foreclosure Impact:
The 8300 Block of S. Morgan St.
Auburn/Gresham, Chicago, Illinois

- Foreclosed in 1993; sold for unpaid taxes in 1999; property demolished
  - 8316

  - 8325

- Multiple foreclosures (1988 and 2001); building violations
  - 8330

  - 8217

- Foreclosed in 2002; problem building
  - 8167

- Foreclosed in 2002
  - 8317-02

Source: Public Records Search by Chicago Legal Aid Clinic, University of Chicago Law School
Foreclosures started in Chicago showed a slight increase in 2005 and a significant increase in 2006.

Source: National Training and Information Center, Chicago, IL
Finding 6: Foreclosures started on newly originated prime rate loans that were identified as ARMs and/or balloon payment loans increased by 152% in 2005.
Fast Foreclosures in NHS Targeted Areas
Foreclosures start within 3 years of Origination
Dramatic increase since 1993

52% of all loans starting foreclosure in 2001 were less than 3 years old

78% in 2006 were less than 3 years old.
New causes of high foreclosures

• No doc and reduced doc loans; particularly income documentation

• ARM resets

• Extremely loose underwriting; increase in allowable Debt to income ratios; qualifying borrowers at “Teaser” rates

• Inappropriate loan products

• Origination and appraisal fraud

• Flat or declining market value
## Chicago’s HOPII Model

- **Partnership** of NHS, City, Federal Reserve, major lenders

- 311 Hotlines connects to **Credit Counseling Resource Center** – collaborative of phone credit agencies

- NHS provides **in-depth** assessments of borrowers and properties and face-to-face counseling

- **NHS Workshops** invite borrowers with partner lenders to learn skills before there is a crisis

- REO property disposition – prevent vacant buildings

- Referrals to **local resources**
  - job training, tax assistance, emergency grants and loans
Chicago’s HOPII Approach

- **Quality homeowner** education to prevent current and future delinquencies.
- **Direct Interventions** to assist homeowners at risk of foreclosure.
- Partnering with loss mitigation to get solutions
- **Reclaim** foreclosed homes for owner-occupants
- Study mortgage and servicing impacts on neighborhoods to develop best practices as a “laboratory” for training and replication
<table>
<thead>
<tr>
<th></th>
<th>Goal</th>
<th>Result</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Counseled and Educated</strong></td>
<td>3,000</td>
<td>4,328</td>
<td>144%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4,328)</td>
<td></td>
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<tr>
<td><strong>Prevented 1,328</strong></td>
<td></td>
<td>1,304</td>
<td>88%</td>
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<td></td>
<td></td>
<td>(1,304)</td>
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<tr>
<td><strong>Reclaimed 330</strong></td>
<td></td>
<td>330</td>
<td>110%</td>
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<td>(330)</td>
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Workshop outreach

NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.

Homeowners Workshop

Topics will include:
- Refinancing Responsibly
- Avoiding Foreclosure
- Financing Home Improvements
- Finding Forgotten Refunds for Homeowners

Tuesday, August 23rd
At Northern Trust Bank
7801 South State Street
Chicago, Illinois

Dinner at 6:00 p.m.
Workshop from 6:30—8:30 p.m.

Receive a $25 gift certificate to Jewel—one per household

Please RSVP at (773) 488-2004
No later than August 22nd

This workshop made possible by:

[Logos of sponsoring companies]
Survey Findings of NHS Counseled Families

Demographics of HOPI Clients
• 73% Women
• 81% African American
• 15% Hispanic

Length of time lived in Home
Mean 10 years
Median 7 years

Income
• Mean $27,000 (38% of AMI)
• 1/3 below $18,000 (25% of AMI)

Average delinquency was 5.4 months when they contacted NHS

Source: NHS Chicago – Survey, 2005 (800 clients)
72% of Defaulted Loans are Refinances

<table>
<thead>
<tr>
<th>Use of Loan Proceeds</th>
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<tbody>
<tr>
<td>Home Improvement/Repair</td>
<td>44%</td>
</tr>
<tr>
<td>Bill Consolidation</td>
<td>24%</td>
</tr>
<tr>
<td>Taxes</td>
<td>6%</td>
</tr>
<tr>
<td>Investments</td>
<td>5%</td>
</tr>
<tr>
<td>Medical Costs</td>
<td>5%</td>
</tr>
<tr>
<td>Appliances</td>
<td>5%</td>
</tr>
<tr>
<td>Education</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: NHS Chicago-Defaulted Borrowers Survey, 2005 (183/289 respondents)
Workshop Surveys

48% have never talked to their mortgage servicer
- 36% of borrowers making late payments
- 45% have no escrow account for taxes/insurance
- 78% have no emergency savings
- 69% are interested in home repairs
- 1/3rd believe bankruptcy will save them from foreclosure
- 51% do not know their lender or servicer might provide alternatives to foreclosure

Source: NHS Homeowner Workshop Surveys, 2005-2006 (178 responses)
Most Have Low Opinion of Lender’s Willingness to Help
Worst Among Most Stressed Borrowers
(Highest on Index of Physical and Emotional Stress Indicators)

Rate lender's willingness to help (if contacted)

Source: Chicago Mortgage Default Counseling Survey, 2005
Why, if Behind, Did not Contact Lender?

Why did you not contact your lender/servicer?

- Afraid the lender would charge a penalty or fee: 10%
- Assumed I/we could make the payment in a few days: 20%
- Afraid lender would foreclose on us faster: 30%
- Did not think the lender would care: 40%
- Did not know the lender might be helpful: 50%
- Embarrassed to talk about problems: 60%

*Source: NHS Chicago-311 Survey, 2005 (56/289 respondents)*
Borrower Focus Groups

- **Borrowers are under a great deal of stress, leading them to avoid help.**
  - “I didn’t even want to go to anybody. I felt embarrassed.”
  - “Then you’re in trouble. I didn’t know which way to turn. I didn’t know there was help out there.”

- **Borrowers feel little sympathy from their lender (although borrowers dealing with loss mitigation staff were more favorable)**
  - “They make you feel like a deadbeat...the way they interrogate you..... I’m not lying. I need help.”
  - “I had twenty people call my house out of that twenty, the twenty-first person actually listened to what I was telling her and said “wait just a minute, this department can help you.”

- **Trust for NHS stems from the relationship with the City of Chicago and their reputation:**
  - “They have no ulterior motives. They have nothing to gain and nothing to lose. They're just ‘this is it, this is it, now you do something’.”
  - “They’re a lot more compassionate...you don’t feel like you’re being put down.”

Source: HOPI Borrower Focus Groups, May 2006
Examples of lost saves

- Refusal to waive pre-payment penalties negate possibility of refi

- Repayment plans based on inadequate current financial information about borrower

- Mod refused – 11% loan not sustainable
  7.5% with re-amortization doable
  But lender did repayment plan that could not be sustained; hoping for refi in future; therefore plan failed

- “We don’t do mods”
Counselor Perspectives on Default Interventions

Homeownership Preservation Initiative (HOPI)

October 2007

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Which best describes changes in demand for default counseling services in the last 6 months?

Source: NHS Default Counselor Surveys 2007
What is the most frequently reported cause of default or foreclosure among your clients?

- Health problem/Illness
- Job Loss
- Consumer debt/expenses
- ARM Resets
- Other

Source: NHS Default Counselor Survey 2007 (104 experienced counselors)
Counselor Evaluation: Major Problems

What share of borrowers that you have seen involve fraud, loans that the borrower could never have afforded or 'exploding ARMs'?

Source: NHS Default Counselor Surveys 2007
Most Common Outcomes Observed by Counselors

How common is each outcome for borrowers in default that you counsel?

% Very Common

Source: NHS Default Counselor Surveys 2007
Flexible Options Are Being Used Enough?

How often will any servicer or lender perform the following with your clients?

- Change an ARM into a fixed rate loan
- Reduce/write-down the principal balance
- Waive fees and accrued interest permanently

Source: NHS Default Counselor Surveys 2007
Borrowers View Servicers Poorly

Which best describes how borrowers in default view their lender/servicer, in general?

- Frustrated: 45%
- Intimidated: 38%
- Angry: 13%
- Borrowers have no opinion: 3%
- Positive: 1%

Source: NHS Default Counselor Surveys 2007
Counselors: Recent Servicer Efforts

Which best describes changes you have observed among lenders/servicers working with borrowers in default in the last six (6) months?

Much more restrictive/harder to work with

Somewhat more restrictive/harder to work with

No change

Somewhat more responsive

Much more responsive

Source: NHS Default Counselor Surveys 2007
Why do borrowers fail to contact their lender when they have trouble making payments?

Don't know lenders can provide options 53%
Too depressed/stressed 26%
Think they can get by on their own 12%
Lenders mistreat them (write in) 10%

Most counselors wrote about multiple problems.

Consistent with borrower surveys and interviews

Source: NHS Default Counselors Surveys 2007
Expectation for demand for nonprofit foreclosure services over the next year?

- Demand will increase a lot: 71%
- Demand will increase a little: 13%
- Demand will decrease a lot: 14%
- Demand will decrease a little: 1%
- Demand will stay the same: 1%

Source: NHS Default Counselor Surveys 2007
Counselor Feedback

- “problems are becoming overwhelming for the counselors as well...we need to work better together”

- “lenders need to realize we can play a ‘broker’ like role because we may have real relationships with people and more accurate information”

- “immediately patch us through to the decision makers rather than wasting our time”

- “create a better system for accepting authorization forms. A 24 hour delay, in many cases, is too long”

- “need to bypass the gorillas in collections”

- “create special processes/products if a nonprofit is involved—like we did on originations”
Looking Forward: More Work to Be Done

- Some evidence counseling-lending relationship getting better; more modifications being made
  - But housing values and surge in demand are challenges
- Improve connections between counselors & lenders
  - Increasing need for services
- Expand use of modification strategies
  - Disseminate innovations more evenly across institutions
- Borrowers need to better understand options & overcome emotional responses

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What more needs to be done?

Early stage Loss mitigation
  Outbound calling by third party
  Early ARM reset notification
  Target “hop spot” marketing
Flexible approach to Loan workouts
  Increase modifications
  ARM to fixed rate
  Principal reduction or deferred portion
Enhanced partnerships with third-party counseling agencies
  Loss mit contact with decision authority
Standard financial info for workouts
Third party review of modifications
How do you improve outreach and loss mit practices?

- Merge collections and loss mit
- Designated loss mit decision makers to work with counselors
- Cross training of loss mit and counselors
- Trained collection staff to recognize loss mit opportunities
- Hold on foreclosure if valid solution
- Loss mit allowed before serious delinquency
- Modifications based on definition of “imminent risk of foreclosure”
- Priority to spend time with borrower
  - “more like counselor then collector”
Value that Not-for-profit counselor can bring to the process

- Gain greater contact with borrowers
- Cost-effective borrower outreach
- Getting accurate current financial information
- Outsource of staffing needs, filling a gap
- Assistance in developing “best practices”
- Third party Trusted advisor role creates solutions
- Access to other resources
  - Public Funds
  - Other private sources
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