



What Works in Foreclosure Counseling: Results from a Study of Five Baltimore Agencies



Solving problems, guiding decisions – worldwide

Introduction to the Study

- Commissioned by BHPC and conducted by Abt Associates.
- Goal is to identify how variations in approaches to foreclosure counseling are associated with likelihood of positive outcomes for clients.
- Focus on five Baltimore counseling agencies:
 - Belair-Edison Neighborhoods, Inc.
 - Druid Heights Community Development Corporation
 - Neighborhood Housing Services of Baltimore
 - Southeast Community Development Corporation
 - St. Ambrose Housing Aid Center

Study Approach

- Interview agency staff to profile the general approach to counseling at each agency.
- Conduct in-depth review of a sample of 10 client cases from each agency to:
 - Examine how the agencies' approaches work in practice; and
 - Observe the client outcomes that result.
- Study caveats:
 1. Small sample sizes do not allow for a statistical analysis of results—study is qualitative and exploratory.
 2. Study's focus on Baltimore agencies only may mask the role of market conditions in determining client outcomes.
 3. Study is still underway—findings are preliminary.

Why Do Clients Need Foreclosure Counseling?

- Dealing with servicers is unfamiliar, complicated, and challenging
 - What are available options (including legal remedies)?
 - How to reach the right person or department?
 - How to handle non-responsive servicers?
- Clients may be intimidated by servicers and their mortgage situation
 - Paralyzed by their situation
 - Lack confidence or skills to communicate effectively with servicer
- Clients may be disorganized by nature
 - Have difficulty managing and completing tasks
- Clients may need help responding to their financial crisis
 - Help with budgeting and financial choices
 - Help in making hard choices about whether to keep their home

How Does Counseling Address These Needs?

- To address these different needs, the “counseling” process actually consists of several different components:
 - **Education:** Providing information on the options likely to be available and the process used by servicers to gather information and make decisions.
 - **Counseling:** Providing advice about the steps clients need to take to address the cause of their financial troubles.
 - **Advocating:** Taking direct action on behalf of clients to resolve their problems.
 - **Coaching:** Providing support for clients to take action themselves to address their needs.

Key Steps in the Counseling Process

- Client intake
- Initial counseling session
- Ongoing case management
- Follow-up after initial resolution

Client Intake

- Role of intake staff:
 - Collect basic information from clients about their situation.
 - Inform clients of the steps they need to take before the first counseling session.
 - Provide client with information about the loss-mitigation process and the forms required to proceed with counseling (the “intake packet”).
- Key Variations:
 - Whether intake is used to direct clients to different services – counseling or legal assistance.
 - Whether clients are required to complete the intake packet before a counseling session is scheduled.
 - Whether staff follow up with clients who go through intake but do not complete the intake packet or miss their counseling appointment.
 - Whether clients are directed to a group education session as the first step before individual counseling.

Initial Counseling Session

- All 5 agencies in study take a similar approach to the initial counseling session:
 - Require clients to complete the intake packet with authorization forms, budget information, hardship reason, and copies of key financial documents.
 - Conduct an in-depth review of the client's level of delinquency, mortgage type, budget, and goals.
 - Present possible loss-mitigation options to client and review steps that need to be taken.
 - Call the servicer (with client present) to initiate discussion of eligibility for loan modification or other options.
- Common approach across agencies likely influenced by requirements for Level 2 funding from NeighborWorks

Ongoing Case Management

- This is the area where important differences emerge across agencies.
- Key difference extent to which the agency emphasizes its **advocacy** versus **coaching** roles.
- With advocacy approach, the counselor actively manages the client's case:
 - Counselor follows-up directly with the servicer on client's behalf
 - Counselor follows up with the client as needed to keep the process moving
- With coaching approach, clients are responsible for driving the process:
 - Client instructed to follow up with servicer largely on their own.
 - Client contacts the counselor for help as needed.
 - » Counselor may make monthly calls to the client to check-in.
- Elements of both approaches evident at all agencies for some clients, but agencies show clear differences in their emphasis.

Variations in Case Management Across Agencies

Average # of Interactions Per Case:	Case Management Approach				
	← Advocacy			Coaching →	
	Agency1	Agency2	Agency3	Agency4	Agency5
Agency-Initiated Interactions with Lender	4.5	4.7	3.5	3.0	0.3
Agency-Initiated Interactions with Client	7.4	3.9	4.2	2.4	1.0
Client-Initiated Interactions with Counselor	0.3	0.6	0.7	1.1	2.1
Total Interactions	12.2	9.2	8.4	6.5	3.4

Client Characteristics

Average Client Characteristics:	Case Management Approach				
	← Advocacy			Coaching →	
	Agency1	Agency2	Agency3	Agency4	Agency5
Annual Income					
Less than \$30,000	30%	29%	30%	38%	40%
\$30,000 – \$59,999	40%	64%	60%	38%	40%
\$60,000 – \$89,999	10%	0%	10%	25%	20%
\$90,000 and above	20%	7%	0%	0%	0%
Average Annual Income	\$53,880	\$37,018	\$41,559	\$34,490	\$33,165
Percent Income for Monthly Payment	39%	37%	51%	62%	57%
Credit Score	Not Avail	563	530	518	594
Delinquency Status					
Share Current	10%	21%	0%	13%	10%
Share 1-3 Months Delinquent	30%	43%	50%	38%	70%
Share 4+ Months Delinquent	60%	36%	50%	50%	20%
Share Foreclosure Initiated at Start	30%	21%	30%	38%	10%

Summary of Client Outcomes by Agency

Client Outcomes:	Case Management Approach				
	← Advocacy			Coaching →	
	Agency1	Agency2	Agency3	Agency4	Agency5
Trial or Permanent Modification	60%	21%	50%	13%	60%
Repayment or Forbearance Plan	10%	0%	10%	25%	0%
Brought Current or Paid in Full	20%	0%	0%	0%	0%
Homeownership Retained	90%	21%	60%	38%	60%
Foreclosure	0%	7%	10%	0%	0%
Bankruptcy	0%	14%	0%	0%	0%
Still in Process	0%	29%	30%	25%	20%
Dropped Out of Counseling	10%	29%	0%	38%	20%

Pros and Cons of “Coaching” Approach

Advantages

- ❖ Requires fewer agency resources.
- ❖ Teaches clients to take responsibility.
- ❖ May be all that is needed if client is organized and motivated or servicer has efficient loss-mitigation department and is motivated to avoid foreclosure.

Drawbacks

- ❖ Clients who are not motivated or not organized may “fall through cracks.”
- ❖ May take longer to get loss-mitigation process started (e.g., if paperwork is not complete).
- ❖ Counselor may not have timely information on loan status.
- ❖ Servicer may take longer to arrive at a decision.
- ❖ Client may miss opportunity to contest an unfavorable decision by servicer.

Pros and Cons of “Advocacy” Approach

Advantages

- ❖ Loss-mitigation process tends to get started faster because paperwork is more complete.
- ❖ Clients who are disorganized or less motivated have their cases considered.
- ❖ Counselor is kept updated on developments such as foreclosure filing.
- ❖ May result in better option for client if servicer made a mistake (e.g., in calculating debt to income ratios) that led to an unfavorable decision.

Drawbacks

- ❖ Resource intensive, so difficult to do with a large caseloads.
- ❖ May not be needed for organized clients and/or servicers with a strong incentive to avoid foreclosure.
- ❖ Requires effective systems for notifying counselors when to follow up with clients and servicers.
- ❖ Most effective when counselor has expertise in lending or loss-mitigation.

Conclusion

- Study revealed substantial variation among agencies in the intensity of counseling provided.
 - Reflects differences in available resources and different perspectives on how much responsibility should fall to clients.
- Advocacy approach may result in fewer drop-outs and more short-term resolution of delinquency, but may not be needed for all clients
- Intake and first counseling session present an opportunity to assess client's ability to manage process on his/her own, based on:
 - Severity of client's situation (including level of delinquency).
 - Client's overall level of organization and motivation.
 - Agency track record and relationship with the servicer.

Next Steps

- Counselor roundtable expected to be convened to discuss preliminary findings.
- Final report will be completed in June 2010.
- Follow-up research could expand the number of agencies analyzed and compare agency approaches and outcomes in one or more different housing market contexts.



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Abt Associates Inc.