

From Insight to Impact
– worldwide

**Approaches to
Foreclosure
Mitigation
Counseling:**

**Findings from a
Study of Five
Baltimore
Counseling Agencies**

Final Report

September 7, 2010

Prepared for
Baltimore Homeownership
Preservation Coalition

Prepared by
Christopher E. Herbert
Jennifer Turnham
Abt Associates Inc.
55 Wheeler Street
Cambridge, MA 02138



Forward

The Baltimore Homeownership Preservation Coalition (BHPC) is a broad-based coalition that works to comprehensively and pro-actively prevent foreclosures and stabilize neighborhoods. Much of BHPC's work is done through committees that focus on marketing and outreach; enforcement of consumer protections; data collection and research, and; protections for renters when their landlords go into foreclosure. Founded in 2005, BHPC is housed in the Baltimore Neighborhood Collaborative. To learn more about BHPC or to become a member visit www.preservehomeownership.org.

One of BHPC's main objectives is to work with the Maryland Housing Counselors Network to support housing counseling organizations in their efforts to help homeowners avoid foreclosure. The primary foreclosure avoidance technique available during this crisis has been loan modifications from the servicer of the homeowner's mortgage. In 2009, BHPC published a study on loan modifications in Maryland to better understand how frequently they were occurring and to see if it was possible to determine factors that increased the chances of securing a modification. This study found that the identity of the loan servicer was the single greatest predictor of whether a modification occurred.

Approaches to Foreclosure Mitigation Counseling: Findings from a Study of Five Baltimore Counseling Agencies compares the post-purchase foreclosure prevention strategies and techniques of five Baltimore housing counseling organizations: Belair-Edison Neighborhoods, Inc.; Druid Heights Community Development Corporation; Neighborhood Housing Services of Baltimore; Southeast Community Development Corporation; and St. Ambrose Housing Aid Center. This paper presents information based on interviews with counselors at five agencies and a detailed review of the case notes for approximately 10 foreclosure counseling clients per agency. In addition, Abt Associates convened a focus group in June with representatives of the housing counseling agencies to share and refine preliminary findings.

As the Executive Director of Neighborhood Housing Services of Baltimore, I know firsthand how hard the counselors at these agencies have been hit by this crisis. Case loads are overwhelming. Clients are stressed and often come in with heartbreaking stories of fraud, personal tragedy, or both. Program rules and regulations change every week. Within this context, BHPC is especially grateful that these organizations were willing to volunteer to take on yet another task to further our collective understanding of effective strategies for helping homeowners keep their homes. We also are grateful that the researchers at Abt were sensitive to the demands on these agencies and took every opportunity to make this process as painless as possible.

I also would like to take this opportunity to thank the Open Society Institute (OSI) which funded the research and writing of this report. The impact of OSI's support for this and other components of BHPC's work cannot be overstated. We are extremely grateful for their support and partnership. Finally, BHPC would like to acknowledge the Maryland Department of Housing and Community Development (DHCD) for providing a technical assistance grant to BHPC that funded the focus group with counseling agency staff. Maryland DHCD has been a close partner of BHPC's as well as a national leader in its efforts to support and build the capacity of housing counseling throughout Maryland.

Please join us in helping Baltimore's homeowners and neighborhoods survive this crisis. If you have any comments or questions, contact BHPC Program Coordinator Meredith Mishaga, mmishaga@bncbaltimore.org.

Sincerely,

Felix Torres-Colon
BHPC Chair
Executive Director
Neighborhood Housing Services

Acknowledgements

The authors of this report wish to acknowledge the assistance provided to this study by a number of individuals. First, we very much appreciate the significant guidance and support provided throughout the process of designing and implementing the study and preparing the report by Sally Scott of the Baltimore Neighborhood Collaborative and Peggy Sand, former coordinator of the Baltimore Homeownership Preservation Coalition (BHPC). Meredith Mishaga, current program coordinator of BHPC, also provided important support for the project and helped facilitate our data collection activities. In addition, Laurie Latuda of the Goldseker Foundation and Ruth Griffin of the Maryland Housing Counselors Network provided insightful feedback on the report.

We also wish to thank the Open Society Institute for funding the study and report and the Maryland Department of Housing and Community Development for funding a focus group with counseling agency staff to review and discuss the report findings.

Finally, we would like to extend our deep gratitude to the staff of the five counseling agencies who shared information and insights with us through interviews, on-site data collection, and a focus group. This study and report truly would not have been possible without their very generous participation. We would especially like to thank the following individuals:

- **St. Ambrose Housing Aid Center:** Vincent P. Quayle (Executive Director) and housing counseling staff Anne Norton (now with the Maryland Department of Labor, Licensing, and Regulation) and Cara Stretch.
- **Belair-Edison Neighborhoods Inc.:** Johnette Richardson (Executive Director) and housing counseling staff Roy Miller, Jennifer James, Lisa Carter, and Florence Kreidler.
- **Neighborhood Housing Services of Baltimore Inc.:** Felix Torres (Executive Director) and housing counseling staff Patricia Hull, Rena Somar, and John Griffin.
- **Druid Heights Community Development Corporation:** Kelly Little (Executive Director) and housing counseling staff Chloe Williams.
- **Southeast Community Development Corporation:** Chris Ryer (President) and housing counseling staff Yvette Murray, Meg Elseroad, and Glenda Sierra-Schulz.

Table of Contents

Executive Summary	i
1. Introduction	1
2. Characteristics of Agencies and Borrowers	5
Characteristics of Participating Agencies	5
Characteristics of Borrowers Sampled	6
3. The Need for Foreclosure Counseling.....	11
Stages in Resolving Mortgage Delinquency.....	11
Challenges to Navigating the Loss Mitigation Process	15
Types of Assistance Needed by Borrowers	16
4. Approaches to Foreclosure Counseling	19
Key Steps in Foreclosure Counseling	19
Variations in Approach to Intake and Ongoing Case Management	21
Illustrations of Counseling Approaches.....	26
5. Borrower Outcomes and Experiences	31
6. Conclusion	35

List of Exhibits

Exhibit 1.	Housing Counseling Services Provided in Fiscal Year 2009.....	6
Exhibit 2.	Distribution of Borrower Sample by Month Started Counseling	7
Exhibit 3.	Characteristics of the Borrower Sample, by Agency and Overall	8
Exhibit 4.	Stages in the Loss Mitigation Process and Knowledge and Abilities Needed to Manage Each Stage	12
Exhibit 5.	Average Number of Interaction Between Counselors, Borrowers, and Servicers by Agency and Case Management Approach	26
Exhibit 6.	Borrower Outcomes in Sampled Cases	32
Exhibit 7.	Borrower Outcomes by Degree of Delinquency.....	33
Exhibit 8.	Borrower Outcomes by Household Income Category.....	33
Exhibit 9.	Borrower Outcomes by Borrower Race	34

Executive Summary

It has been more than three years since the start of the foreclosure crisis and the nation continues to struggle to help people maintain their homes in the midst of a severe recession. Since 2007, federal, state, and local governments have engaged in several attempts to stem the tide of foreclosures and mitigate the effects on borrowers and neighborhoods. Their efforts have largely focused on increasing the incentives for lenders to offer loan modifications and providing borrowers with education and resources to work effectively with lenders and servicers toward a solution.

One of the most important tools for helping borrowers communicate with their lenders and navigate the loss-mitigation process is housing counseling. While there is some evidence that foreclosure counseling is effective in helping owners who get behind on their mortgage avoid foreclosure, we know little about the mechanisms that make counseling effective. In early 2010, the Baltimore Homeownership Preservation Coalition, with funding from the Open Society Institute, commissioned a study of foreclosure counseling at five Baltimore agencies to learn more about effective approaches to foreclosure counseling. This paper presents the findings of that study, which is based on interviews with counselors at five agencies and a detailed review of the case notes for approximately 10 foreclosure counseling clients per agency.

The study found that the basic approach to foreclosure counseling does not vary substantially from agency to agency. The agencies in the study followed a similar intake process and had a similar process for getting the borrower into contact with the servicer's loss mitigation department during the first counseling session. However, we observed some variation among agencies in their approach to case management and client follow-up after the initial session. Four of the five agencies rely heavily on a "coaching" approach, in which the counselor helps the borrower to submit the loss-mitigation packet to the lender and teaches them how to follow up with the lender, but then leaves much of the follow-up work in the borrower's hands. One of the five agencies, however, primarily follows a more resource-intensive "advocacy" approach, in which counselors themselves follow up with lenders and proactively keep in touch with borrowers. We observed that the agency that follows the advocacy approach had more frequent interaction with borrowers and servicers and achieved the best outcomes in terms of the share of borrowers who were able to retain homeownership. This agency also had among the lowest rates of borrower "drop out," i.e., borrowers who begin counseling but lose touch with the agency before resolving their mortgage problem.

Most agencies in the study follow a coaching approach in order to serve the largest possible number of clients with the very limited resources they have available. The coaching model is also consistent with the reimbursement structure of the National Foreclosure Mitigation Counseling (NFMC) Program, the major source of funding for foreclosure counseling across the country. NFMC does not provide funding for services beyond what is generally provided in the first individual counseling session. Any efforts provided by counseling agencies after this first session are essentially unfunded by NFMC and so must be covered by other sources of funding.

The findings of this study do not suggest that agencies operating with limited resources should abandon the coaching approach in favor of a more staff-intensive advocacy approach. In many cases

a coaching approach will be appropriate and efficient in supporting clients through the process. In fact, at all five agencies, a majority of the borrowers whose cases were reviewed had either achieved a resolution to their mortgage delinquency (usually a trial modification) or were still in counseling and awaiting their servicer's decision on a resolution at the time we reviewed the case notes. Nevertheless, the study findings highlight the benefits of more proactive case management by counselors, as exemplified by the advocacy approach, for distressed borrowers, particularly those who are least able to manage the loss-mitigation process on their own.

1. Introduction

It has been more than three years since the start of the foreclosure crisis, and the nation continues to struggle to help people maintain their homes in the midst of a severe recession. According to the OCC and OTS Mortgage Market Metrics Report, the number of new foreclosures nationwide has continued to rise over the past year, from roughly 110,000 in the first quarter of 2009 to about 195,000 in the first quarter of 2010.¹ Information from HopeNow indicates that Maryland has also seen a continuing rise in foreclosures completed over this period.²

Since 2007, federal, state, and local governments have engaged in a number of attempts to stem the tide of foreclosures and mitigate the effects on borrowers and neighborhoods. These efforts have focused on increasing the incentives for lenders to offer loan modifications to distressed borrowers and providing borrowers with the education and resources they need to be able to work effectively with lenders and servicers toward a solution.³

One of the most important tools for helping borrowers communicate with their lenders and navigate the loss-mitigation process is housing counseling. Congress singled out housing counseling as a key weapon in the battle against foreclosures when it created the National Foreclosure Mitigation Counseling (NFMC) Program in December 2007 and provided an initial appropriation of \$180 million, followed by another \$180 million in 2008 and \$115 million in 2009. NFMC funds are used to pay for foreclosure counseling services for homeowners, training in foreclosure counseling for housing counselors, and legal assistance for homeowners facing foreclosure. Since its inception, NFMC has funded foreclosure counseling for close to 900,000 homeowners through hundreds of established housing counseling agencies across the country, most of which were already HUD-approved agencies.⁴

The other major national funder of housing counseling services is the U.S. Department of Housing and Urban Development (HUD). HUD's budget for housing counseling has grown substantially over the past three years, from \$50 million in fiscal year 2008 to \$87.5 million in fiscal year 2010. HUD housing counseling funds cover all types of housing counseling and education, including foreclosure counseling. Between the large Congressional funding for foreclosure counseling through the NFMC program and the increase in HUD funding for counseling generally, the number of borrowers receiving foreclosure counseling has increased greatly in the past three years. In FY 2007, HUD-

¹ "OCC and OTS Mortgage Market Metrics Report," First Quarter 2010, June 2010. Downloaded on July 2, 2010 from <http://www.occ.treas.gov/ftp/release/2010-69a.pdf>.

² Foreclosure data at the state level from HopeNow is available at: [http://www.hopenow.com/industry-data/State%20Loss%20Mitigation%20Data%20\(Mar%202010\)%2005-07-2010a.pdf](http://www.hopenow.com/industry-data/State%20Loss%20Mitigation%20Data%20(Mar%202010)%2005-07-2010a.pdf).

³ For a review of the federal response and steps taken by the State of Maryland, see Michael J. Collins and Christopher E. Herbert, *Loan Modifications as a Response to the Foreclosure Crisis: An Examination of Subprime Loan Outcomes in Maryland and Surrounding States*, paper prepared for the Baltimore Homeownership Preservation Coalition, December 17, 2009.

⁴ NeighborWorks® America, *National Foreclosure Mitigation Counseling Program Congressional Update, Activity through January 10, 2010*.

approved housing counseling agencies reported providing foreclosure counseling to about 265,000 borrowers, including those supported by HUD funding as well as clients assisted using other funding sources including the NFMC program. In FY 2009, this number increased to 1.4 million and it is likely to exceed 1.8 million by the end of FY 2010.⁵

This growth has put tremendous strain on the housing counseling industry, which has had to recruit new staff to provide foreclosure counseling and re-train existing counselors used to working with homebuyers. At the writing of this report, the industry has made great strides in terms of building capacity to meet the demand for foreclosure counseling. However, agencies continue to operate in an environment in which the demand for counseling services exceeds the resources available to pay for them. As a result, foreclosure counselors typically manage very large borrower caseloads and must work with borrowers as efficiently as possible to resolve the delinquency.

Underlying the large federal investment in foreclosure counseling is a belief that counseling can play a critical role in helping homeowners navigate the loss-mitigation process and avoid foreclosure. Homeowners seeking to work with their servicers and lenders to resolve a mortgage delinquency face a number of challenges in understanding their options and how to work effectively with servicers. Borrowers may also have personal traits that make it difficult for them to manage this process, including a lack of organizational skills or confidence in dealing with lenders and a fear of the implications of their situation that may cause them to avoid interactions with lenders. In addition, many homeowners who get behind on their mortgage need help addressing the underlying issues that got them into that situation – job loss, reduction in income, increases in expenses, and unaffordable housing payments. Foreclosure counselors can provide borrowers with a combination of education about the loss mitigation process, coaching on how to navigate this system, direct advocacy with servicers and others to help resolve their situations, and counseling on what avenues would be best to pursue given their personal circumstances. Counselors can also provide referrals to other service providers to help borrowers address the income and debt issues underlying their mortgage delinquency.

There is much anecdotal evidence that foreclosure counseling can be effective in helping homeowners avoid foreclosure. However, the empirical research on the topic is limited. Two recent studies based on mortgage loan data suggest that foreclosure counseling can be effective in helping delinquent borrowers avoid foreclosure. The first study analyzed a national sample of low-to-moderate income borrowers with delinquent loans between 1998 and 2004. Some of the borrowers received counseling through proactive offers of assistance from Consumer Credit Counseling Services (CCCS) while others did not receive an offer of this assistance. The study found that borrowers who took advantage of the counseling offered when they were at least 60-days delinquent were significantly more likely to cure their delinquency than borrowers who did not receive counseling—including those that did not

⁵ HUD Housing Counseling Program, FY2007 9902 Cumulative Report, FY2009 9902 Cumulative Report, and FY 2010 9902 2nd quarter report. Estimates for FY 2010 based on doubling the number of borrowers served in the first six months of the year. All HUD-approved counseling agencies are required to submit a 9902 report each year on the volume of housing clients assisted, including those supported through HUD funding and other sources.

receive the offer of counseling. However, there was no significant effect of counseling provided before the owners became 60 days delinquent.⁶

The second recent study testing the effect of foreclosure counseling on borrower outcomes is the preliminary evaluation of the NFMC program.⁷ The study found that borrowers who received NFMC counseling after the foreclosure process had started were more likely to avoid a foreclosure completion than borrowers who did not receive NFMC counseling. The study also found that among those borrowers who received NFMC counseling, borrowers who were two or three months delinquent were less likely to experience a foreclosure than other counseled borrowers.

While these studies provide some evidence that foreclosure counseling is effective in helping owners who get behind on their mortgage avoid foreclosure, we still know little about the exact mechanisms that make counseling effective. Qualitative research on foreclosure counseling that documents and evaluates the specific approaches used are particularly rare. A recent qualitative study of debt counseling in the UK found that people who received debt counseling generally thought it was very helpful, although not all had been able to act on the advice. The counsees interviewed for the study described several elements of the counseling that they thought had a positive impact on them, including having someone to talk to, receiving practical information, and having somebody to represent them in dealing with creditors.⁸

A study by J. Michael Collins for the Neighborhood Housing Services, Inc. of Chicago (NHS of Chicago) examined borrowers' perceptions of the usefulness of counseling based on a survey of about 300 borrowers in Chicago.⁹ At the time of the survey, the borrowers had received foreclosure counseling but had not yet lost their homes to foreclosure. On average, the borrowers rated their counseling experience somewhere between "fair" and "moderate," where fair was defined as "the counselor presented useful options" and moderate was defined as "because of the counseling I was able to handle my situation better." Collins found that borrower ratings of the usefulness of counseling were somewhat lower for borrowers who were counseled only by telephone (as opposed to in-person or a combination of in-person and telephone counseling). He also found that borrower satisfaction was correlated with the number of hours spent in counseling, with more counseling hours being associated with higher levels of satisfaction.

This paper builds on this research by focusing on *how* foreclosure counseling is implemented and how variations in counseling approach relate to outcomes for borrowers. The paper presents the findings of a qualitative study of foreclosure counseling practices at five Baltimore agencies. The

⁶ Lei Ding, Roberto G. Quercia, and Janneke Ratcliffe, "Post-purchase Counseling and Default Resolutions among Low- and Moderate-Income Borrowers," *Journal of Real Estate Research*, 2008, 30:3.

⁷ Neil Mayer et al., *National Foreclosure Mitigation Counseling Program: Preliminary Analysis of Program Effects*, prepared for NeighborWorks® America, November 2, 2009.

⁸ Michael Orton, *The Long-Term Impact of Debt Advice on Low-Income Households, Project Working Paper 3: The Year Two Report*, August 2009. Downloaded July 22, 2010 from <http://www2.warwick.ac.uk/fac/soc/ier/research/current/debt/wp3year2reportinexecsum.pdf>.

⁹ "Exploring the Design of Financial Counseling for Mortgage Borrowers in Default," J. Michael Collins, PolicyLab Consulting Group, LLC, July 14, 2006.

study was commissioned by the Baltimore Homeownership Preservation Coalition (BHPC) and funded by the Open Society Institute with the goal of learning more about approaches to foreclosure counseling in Baltimore and identifying counseling practices associated with positive borrower outcomes. The study entailed interviews with key staff at each agency to document their approach to foreclosure counseling, and a detailed review of approximately 10 client cases at each agency to examine how the counseling process worked in practice and what outcomes were achieved. Preliminary findings from the interviews and case review were then vetted through a group discussion with representatives of the five participating agencies. Given its limited scope in terms of both the number of agencies studied and the number of borrowers analyzed, this work is best described as exploratory in nature. Nonetheless, it is hoped that the findings on the variations in counseling approaches used and outcomes realized across this small number of agencies will shed some light on the likely effectiveness of different approaches to foreclosure counseling.

The paper is organized in five main sections. Following this introduction, Section 2 introduces the five agencies that participated in the study and describe briefly the characteristics of the 51 borrowers whose cases we reviewed. In Section 3, as a way of framing the findings regarding specific approaches used by counseling agencies in assisting borrowers, we describe the stages of the loss mitigation process and identify how foreclosure counseling can address the challenges that borrowers face in navigating through this process. Section 4 discusses the approaches to foreclosure counseling observed among the five agencies. Section 5 examines the outcomes observed among the borrowers in our sample and the factors influencing those outcomes. The final section offers suggestions for how counseling agencies and other proponents of housing counseling might use the results of the study.

2. Characteristics of Agencies and Borrowers

This study was designed to examine foreclosure counseling practices and borrower outcomes among five Baltimore area organizations providing foreclosure mitigation counseling. The purpose of the study was to use qualitative methods to identify variations in approaches among the agencies and promising practices. The study entailed interviewing housing counselors at each of the agencies and reviewing counselor case notes for a small sample of borrowers (51 total, approximately 10 per agency) to examine in detail the services that borrowers received and how borrowers worked with counselors and servicers to resolve their mortgage delinquency. This section describes the characteristics of the agencies participating in the study and of the sample of borrowers selected for case review.

Characteristics of Participating Agencies

The study focuses on five housing counseling agencies that are BHPC members and volunteered to participate in the study. The agencies are:

- Belair-Edison Neighborhoods, Inc. (BENI)
- Druid Heights Community Development Corporation (Druid Heights)
- Neighborhood Housing Services of Baltimore (NHS)
- Southeast Community Development Corporation (Southeast CDC)
- St. Ambrose Housing Aid Center (St. Ambrose)

The five agencies are all community-based nonprofit organizations in Baltimore City that provide housing counseling and other housing services. The agencies are located in different parts of the city—northeast Baltimore (BENI), west Baltimore (Druid Heights), central Baltimore (NHS and St. Ambrose), and southeast Baltimore (Southeast CDC). Three of the five agencies have a strong neighborhood focus, but none places geographic restrictions on who can receive services and all report serving borrowers from across the city and state.

Exhibit 1 provides summary statistics on the housing counseling services provided by each agency in the study during the twelve-month period ending September 2009. All five agencies participate in Maryland's Homeowners Preserving Equity (HOPE) initiative and receive a large number of foreclosure counseling referrals through the HOPE hotline and website.¹⁰ They are also all HUD-approved counseling agencies and receive funding for foreclosure counseling through NFMFC. Borrowers at risk of foreclosure make up about half of all counseling borrowers served by the five agencies, but the volume of borrowers served varies. St. Ambrose serves by far the largest volume of foreclosure counseling clients – nearly 2,000 in 2009 compared to several hundred at the other agencies. Unlike the other agencies, which primarily provide pre-purchase and foreclosure

¹⁰ The Maryland HOPE Housing Counseling Network includes 31 housing counseling agencies statewide. Borrowers may contact any of these agencies directly or receive a referral through the HOPE hotline.

counseling, St. Ambrose also provides a substantial amount of rental counseling. The large amount of rental counseling means that overall St. Ambrose serves a somewhat lower-income population than the other agencies, with 63 percent of its borrowers at or below 50 percent of the area median income.

Most of the agencies primarily serve racial minorities, mostly African Americans. The exception is Southeast CDC, which serves a much larger share of white and Hispanic borrowers by virtue of its location in the city. Of the five agencies in the study, Southeast CDC is the only one that provides bilingual housing counseling services.

Exhibit 1. Housing Counseling Services Provided in Fiscal Year 2009

	BENI	Druid Heights	NHS	Southeast CDC	St. Ambrose
Services Provided:					
Pre-purchase homebuyer workshops	√	√	√		√
Mortgage delinquency workshops					
Pre-purchase homebuyer counseling	√	√	√	√	√
Foreclosure counseling	√	√	√	√	√
Home maintenance and financial management counseling	√	√	√	√	√
Rental counseling			√		√
Number of individuals receiving mortgage delinquency counseling	271	145	208	242	1,815
Individuals receiving mortgage delinquency counseling as a percent of all individuals counseled	52%	47%	51%	41%	52%
Number of counselors providing mortgage delinquency counseling	2	1	2	3	6
Average Number of Borrowers Per Counselor	136	145	104	81	302
Characteristics of Borrowers Served:					
Percent White	10%	21%	15%	49%	22%
Percent African-American	86%	78%	78%	32%	74%
Percent Hispanic	1%	0%	3%	18%	2%
Percent <50% of AMI	37%	37%	28%	38%	63%
Percent <80% of AMI	74%	95%	56%	68%	86%

Source: HUD 9902 reports for the reporting period October 1, 2008 – September 30, 2009.

Characteristics of Borrowers Sampled

The study design called for reviewing the case files for a sample of approximately 10 foreclosure borrowers for each of the five agencies. The goal in selecting the sample was to obtain an unbiased sample of borrowers who began foreclosure counseling in the fall of 2009. We selected fall 2009 as the period from which to review borrower cases because we wanted to capture the counseling environment after the implementation of the Home Affordable Mortgage Program (HAMP), which

provided greater opportunities for distressed borrowers to obtain a loan modification. We also wanted to allow sufficient time for borrowers to have reached some type of resolution for their mortgage delinquency, such as a mortgage modification, repayment plan, or foreclosure, before we began the file review in April 2010. (Typically, it takes several months for a servicer or lender to respond to a request for loan modification.)

We worked closely with each of the agencies to obtain an unbiased sample of borrowers served in September and October 2009, but this was not possible in all cases. Exhibit 2 shows the distribution of the 51 borrower cases by the month the borrower sought counseling. Most borrowers in the sample started counseling in September, October, and November 2009, but some started earlier. However, all of those that began counseling prior to September 2009 were still receiving services into the fall, and therefore were exposed to the mortgage modification options available under HAMP.

We also tried to ensure that the sample of borrowers represented a cross-section of counselors for those agencies that had more than one counselor working with foreclosure counseling clients. Three of the five agencies had more than one foreclosure counselor active during September and October of 2009. As a result, the sample of 51 borrower cases reflects the work of 11 counselors (3 at BENI, St. Ambrose, and Southeast CDC, and 1 at Druid Heights and NHS). However, we did not encounter any cases of individual borrowers working with more than one counselor.

Exhibit 2. Distribution of Borrower Sample by Month Started Counseling

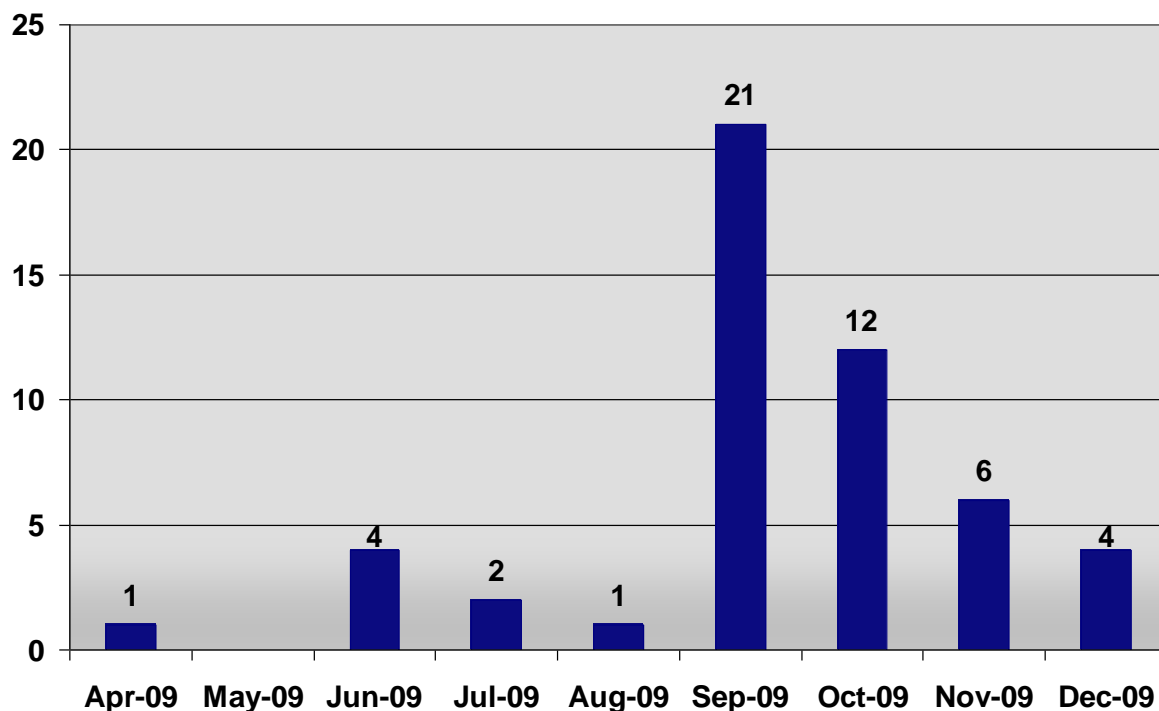


Exhibit 3 summarizes the characteristics of the 51 borrowers by agency. We masked the agency names in this exhibit and throughout the report because findings based on such a small number of

borrowers could misrepresent outcomes at a given agency.¹¹ The borrower characteristics are broadly similar across agencies. Most borrowers in the sample have incomes of less than \$60,000, with an average income generally between \$33,000 and \$42,000 per year. (The sample for Agency 1 included one borrower with an income of more than \$100,000, which drove up the average income for that agency over \$50,000.) Credit scores among the sampled borrowers range from 432 to 813, but most borrowers have credit scores under 600.

Exhibit 3. Characteristics of the Borrower Sample, by Agency and Overall

Annual Income	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Overall
Less than \$30,000	30%	29%	30%	38%	40%	31%
\$30,000 - \$59,999	40%	64%	60%	38%	40%	51%
\$60,000 - \$89,999	10%	0%	10%	25%	20%	8%
\$90,000 and above	20%	7%	0%	0%	0%	10%
Average Income	\$53,880	\$37,018	\$41,255	\$34,490	\$33,165	\$41,549
Average Credit Score	Not Avail.	563	530	518	594	546
Delinquency Status at Start of Counseling						
Current	10%	31%	11%	0%	10%	10%
1-3 mos. delinquent	40%	31%	33%	63%	70%	40%
4+ mos. delinquent	50%	38%	56%	38%	20%	50%
Foreclosure initiated	30%	21%	30%	38%	10%	24%

Source: Review of 51 borrower files.

As would be expected, most borrowers in the study sample were delinquent on their mortgage when they started counseling. Across the five agencies, 40 percent of borrowers sampled were between one and three months delinquent and 50 percent were four or more months delinquent. Ten percent of borrowers were current on their mortgage but anticipated falling behind. Each agency had at least two borrowers in the sample that were behind four months or more and at least one borrower who had received a notice of intent to foreclose.

Housing counselors collect information on the reasons for delinquency for all foreclosure counseling borrowers for the purposes of establishing the borrower's hardship as well as for reporting to funders such as NFMCC. Most borrowers in the sample had either lost a job or had their work hours reduced in the year prior to seeking counseling services. Other reasons for delinquency included increased expenses, medical problems (affecting both earnings and expenses), and divorce or separation (reducing household income). There were no observable differences across the five agencies in the reasons for delinquency among borrowers in the sample. Notably, there were few cases where borrowers financial difficulties were linked to either an adjustment in mortgage payments after origination or to loan costs that were not affordable even at origination. In this regard, the cause of

¹¹ The numbering of the agencies in Exhibit 3 does not correspond to the order in which the agency names appear in the bulleted list above.

financial distress among clients is more strongly associated with problems associated with the economic recession or to traditional financial trigger events than with predatory or otherwise ill-advised lending. This is consistent with the evolution of the foreclosure over time, which was initially concentrated among subprime loans but has come to be dominated by prime loans as the economic recession took hold and very high levels of unemployment have persisted.

3. The Need for Foreclosure Counseling

In order to assess the effectiveness of the specific approaches to foreclosure counseling found at the five Baltimore agencies studied, it is helpful to first conceptualize the barriers borrowers may face in resolving their mortgage delinquency and how counseling may provide assistance in overcoming these barriers. In presenting this conceptualization, we begin by outlining the key stages in the process of resolving mortgage delinquencies and what knowledge or abilities are needed to move through this process. We then describe the challenges that borrowers face in navigating this process and identify the specific methods that counseling agencies may use to assist borrowers. This discussion is intended to set the stage for the discussion in Section 4 of the counseling approaches observed in practice at the five Baltimore agencies.

Stages in Resolving Mortgage Delinquency

Exhibit 4 outlines the stages in this process and the knowledge and abilities needed for the borrower to effectively manage each one while working on their own with the lender. We also discuss the ways in which a counselor may be able to assist the borrower through this stage. The discussion below describes in detail each of these stages.

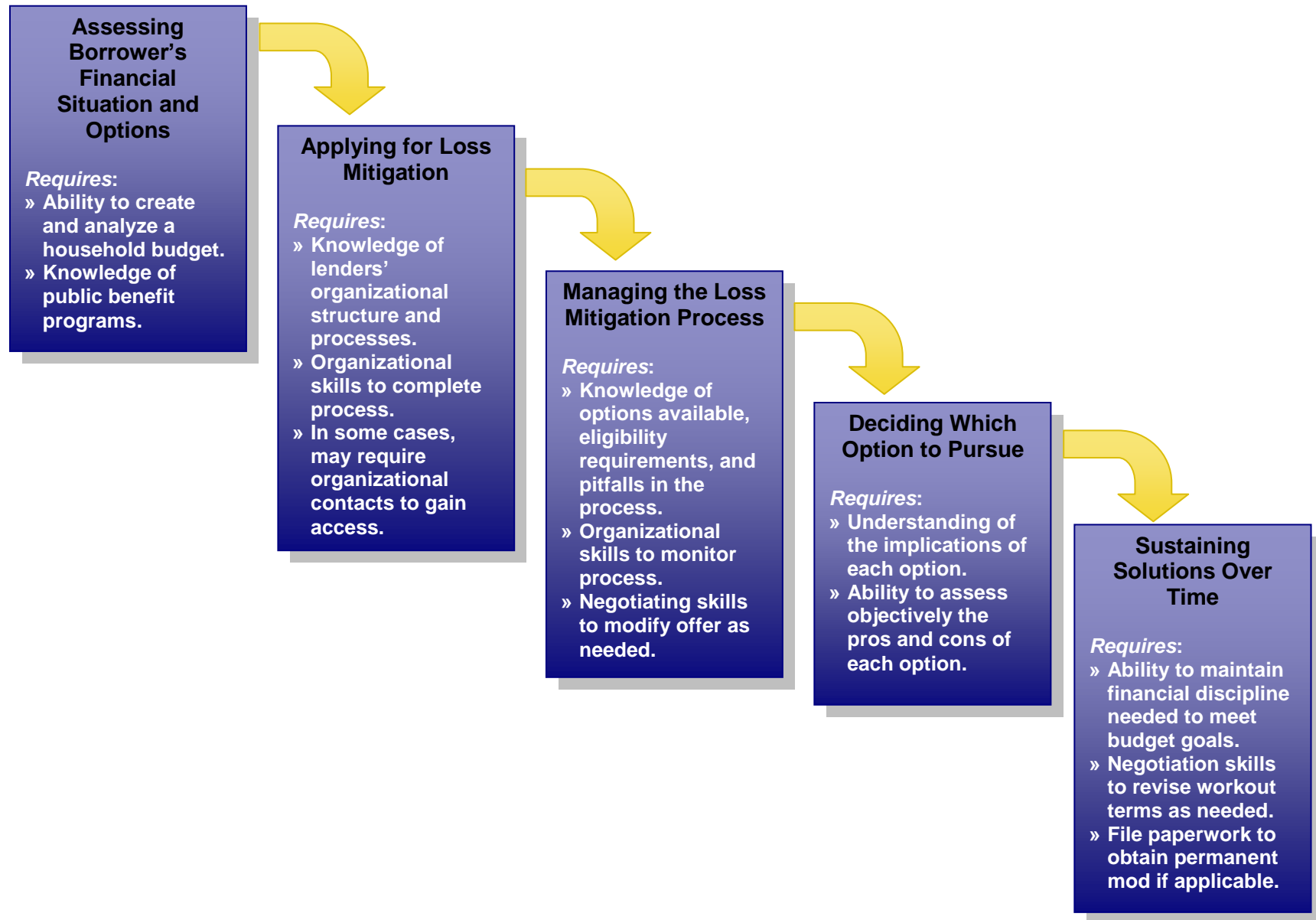
Assessing the Borrower's Financial Situation and Options

The first step is to carefully review the borrower's financial situation. This step begins by completing a detailed household budget, identifying all categories of expenditures and sources of income. The detailed budget then becomes a tool for assessing options for improving the household's financial situation, including cutting unnecessary expenses and identifying options for increasing income.

The household budget is a standard requirement for loss mitigation programs. Lenders can provide forms and guidance for borrowers, but given the demands on lenders' time, for the most part borrowers would be left on their own to complete this step. While the development of the household budget is not complex, having some guidance from a counselor in identifying typical household expenditure categories can be quite helpful.

Loss mitigation programs will also require that borrowers take steps both to reduce unnecessary expenses and to boost income as possible. The process of identifying areas where expenditures can be reduced is aided by having an outside party sort through what are truly necessary expenses and what can be forgone. Outside guidance from a counselor may also be helpful in identifying immediate options for increasing income, such as renting out spare rooms or seeking additional contributions from household members who are not the primary earners. Finally, expertise in public benefits programs may also be helpful in identifying new sources of income and financial support.

Exhibit 4. Stages in the Loss Mitigation Process and Knowledge and Abilities Needed to Manage Each Stage



There are several ways counseling can help borrowers at this stage. Completing the process of developing and reviewing the household budget before contacting the lender helps to speed up the process. The bottom line from the budget analysis also indicates whether there are any viable workout options available for retaining homeownership. While the lender can explain which options may or may not be available based on the borrower's circumstances as part of the loss mitigation review process, a counselor can help a borrower understand these options going into this review and so gauge their expectations accordingly. The counselor is also better positioned to give the borrower advice about the need to trim expenses or boost income as lenders' motives in providing this advice could be viewed with suspicion by the borrower.¹²

Applying for Loss Mitigation

Delinquent loans are generally handled by the servicer's collections department—whose primary purpose is to “encourage” borrowers to submit their overdue payments—until the borrower establishes contact with the servicer and makes it clear that they are currently unable to meet their mortgage obligations but do want to maintain ownership of their home. At that point, borrowers are referred to the servicer's loss mitigation department, which is responsible for negotiating loan workouts, including loan modifications. In order to request that their loan be considered for modification or some other loss-mitigation option, borrowers need to assemble a range of documents to demonstrate why the current mortgage payment presents a hardship and to document their financial situation. Typically, a loss mitigation package must include a hardship letter (stating the cause of the delinquency and the borrower's desire to maintain ownership of the home), a detailed household budget, and copies of recent tax returns, W-2 forms, pay stubs, and bank statements. If the borrower owns their own business, they will also need to submit a profit and loss statement for this enterprise.

Navigating this stage of the process requires knowledge of lenders' organizational structures and processes, including understanding that a separate loss mitigation department exists, and knowing how to gain access to this department and how to prepare the specific documents required. If borrowers do contact their lender, they may be guided through this process by the collections department staff. However, borrowers have reported many cases where they have difficulty getting lenders to respond to their efforts to seek remedies to their delinquency. In other cases, borrowers may avoid contacting their lender out of a belief that there are no remedies available. Counselors can help borrowers by providing them with an understanding of the options available and the process that needs to be followed. The counselor may also be of assistance by helping borrowers punch through lenders' bureaucracy and become engaged with the loss mitigation staff.

Given the relative complexity of the materials required, there is also a need for some organizational skill to assemble and submit a complete and accurate set of documents. As has been much publicized, lenders can also be non-responsive to borrower inquiries because they are overwhelmed by the volume of delinquent mortgages. As a result, navigating this stage of the process may also

¹² As part of this stage of the process, borrowers may also benefit from other types of assistance to remedy their financial situation that go beyond the normal scope of housing counseling, including assistance with job search or training, or support in gaining access to health care or disability benefits. In general, however, these types of supports fall outside the range of the services provided by most housing counseling agencies.

require persistence and/or some known point of entry to the lender's loss mitigation department. While borrowers may be able to manage this on their own, counselors may be of help in this process by informing borrowers of the information and documents required, keeping after borrowers to assemble this information, and helping them to successfully submit the documents to the lender.

Managing the Loss Mitigation Process

There are several reasons why it is important to manage the lender's loss mitigation review. As has been widely reported—and was evident in a number of the cases reviewed for this study—it is very common for servicers to lose or misplace the documents that borrowers submit, apparently due to an inability to manage the heavy volume of submissions. To ensure that the lender's review of their case is not derailed by incomplete documentation, borrowers need to follow up with servicers immediately after submitting the documents to confirm their receipt and then again at regular intervals during the review process to be sure that lenders continue to have complete and up to date records. Borrowers may need to resubmit documents multiple times at the start of the process and, as time goes on, they may also have to resubmit some of the documentation (e.g., pay stubs) to be current at the time the servicer makes a determination on the mortgage.

Counselors can help borrowers through this process by either reminding them of the need to monitor the completeness of their packet or by submitting documents for them. After ensuring that the servicer has received the loss-mitigation package, borrowers need to check in regularly with the servicer's loss mitigation department for several reasons. First, borrowers need to make sure that their case is indeed under review by loss mitigation staff (negotiator) and has not fallen through the cracks. Second, borrowers may need to negotiate with the servicer about the loss-mitigation option being offered. Negotiation may be needed to counter a rejection (either by addressing factors that produced ineligibility or by advocating for consideration for other loss mitigation options) or to improve the option offered (if the solution is unlikely to be affordable for borrower). Counselors can help borrowers identify opportunities for overturning a rejection for loss mitigation—such as by being sure that income and expenses have accurately been assessed or changes in borrowers' circumstances have been taken into account. While borrowers may be able to negotiate on their own, a lack of expertise in lenders' decision-making process will make it hard for borrowers to understand where the key leverage points are in this negotiation.

During this phase, borrowers also need to be aware of lenders' standard practices with regard to foreclosure initiation. In most cases, lenders will begin foreclosure proceedings once a borrower falls behind by four monthly payments. Borrowers can buy more time for pursuing loss mitigation options if they are able to keep from reaching this delinquency threshold. While lenders will generally not initiate foreclosure while a loan is being considered for a loss mitigation option, it may still be important to avoid being able to have foreclosure initiated should the loss mitigation review end without the offer of a workout option.¹³ Counselors can advise borrowers about this aspect of the process.

¹³ However, effective July 1, 2010, lenders are required in Maryland to submit a loss-mitigation affidavit stating the reasons for denial of a loan modification 30 days prior to a foreclosure sale. Borrowers then have 15 days of receiving the affidavit to request mediation. Upon filing the request for mediation, the foreclosure process is halted until the mediation session is held, which has to be within 60 days of the

Deciding on Which Option to Pursue

At the end of the loss mitigation process, a borrower will face a choice about how to proceed in resolving their delinquency. Assuming that the lender has offered the borrower a workout option, the obvious choice is whether to accept this offer or not. With the current emphasis through the HAMP program on loan modifications, in many cases borrowers will face a choice of whether to accept the terms of the modified loan offered by lenders. While the modified loan may reduce the borrower's monthly payment, the borrower may still have concerns about the long-term affordability of the loan or the size of the mortgage compared to the value of the home. Borrowers may decide that the workout option is not sustainable and so choose to pursue alternatives for selling their home or turning it over to the lender through a deed-in-lieu of foreclosure. Alternatively, borrowers may choose to enter bankruptcy as a means of forestalling foreclosure and seeking other remedies for their overall financial distress.

In making a decision, borrowers need to have an understanding of the full range of their options, including those that entail relinquishing their home. Borrowers also need to be able to assess objectively the pros and cons of each option to identify the most appropriate avenue to pursue given their goals and circumstances. Counselors can be of great value at this stage in providing borrowers with a third-party review of the merits and potential negative consequences of each option.

Sustaining Solutions over Time

Most borrowers who are able to maintain homeownership will do so by obtaining a trial or permanent loan modification. If it is a trial modification, the borrower needs to make payments at the modified amount for at least a three-month period before the modification becomes permanent. Many borrowers that seek housing counseling face a highly unstable employment environment in which they have little job security and may face repeated pay cuts or job losses. It is inevitable that some borrowers who receive trial or permanent modifications will experience an income reduction and be unable to keep up with their mortgage payments. In some cases, the modification may have been predicated on an unrealistic assessment of a borrower's ability to reduce expenditures, while in other cases borrowers might have poor financial management practices that result in unsustainable spending. While borrowers may be able to manage this stage of the process on their own, they may need ongoing support from counselors to change their financial practices or to re-negotiate with their lenders for further mortgage relief. However, in practice most counseling agencies have limited contact with borrowers during the trial modification period.

Challenges to Navigating the Loss Mitigation Process

There are three main challenges that borrowers face that hinder their ability to successfully navigate the loss mitigation process—and which short-term counseling can help to remedy: a lack of knowledge about the loss mitigation process, a lack of organizational skills, and an impaired emotional state given their situation. Borrowers may also have other deficiencies that contributed to

borrower's filing. With this law, borrowers now have a strong process for avoiding immediate foreclosure if a loan modification is denied.

their financial difficulties and may impede a resolution to their delinquency, but short-term counseling may be ill equipped to resolve. This primarily relates to a lack of resolve to manage household finances in a prudent way, but may also include mental-health, physical-health or substance abuse problems.

Knowledge

As outlined above, a wealth of knowledge is needed to navigate the loss mitigation process successfully. This includes an understanding of lenders' organizational structures, their processes for offering workout options, the types of options available, the eligibility requirements for these options, and the pros and cons of each option. Borrowers also need to know their legal rights in dealing with lenders, in the foreclosure process, and in bankruptcy.

Organizational Skills

The loss mitigation process is highly bureaucratic. Negotiating this process is greatly aided by having the organizational skills needed to maintain clear records of contacts with lenders, manage the flow of information with the lender, and follow a regular schedule of contact with lenders to monitor the loss mitigation process.

Emotional State

Borrowers facing the potential loss of their home to foreclosure are dealing with a great deal of emotional stress. Aside from the anxiety associated with the thought of losing your home, the circumstances that produced borrowers' financial distress are themselves often emotionally draining. The most common causes of delinquency are loss of a job, illness of the borrower or their spouse, or divorce. Taken together, these trigger events, the subsequent financial distress, and the possibility of foreclosure put borrowers under tremendous stress. In these circumstances, it is not surprising that many borrowers will be overwhelmed and will avoid engaging with their lenders out of fear of having to confess that they cannot afford their mortgage.¹⁴ Borrowers may also be mistrustful of lenders' motives under the belief that lenders are primarily interested in foreclosing on their home. This lack of trust of lenders' motivation may also hinder borrowers' interactions with them.

Types of Assistance Needed by Borrowers

While the assistance provided to borrowers to help them through this process is generally referred to as "counseling," this is in some respects a misnomer as the types of assistance provided are often not best described as counseling, per se. A common definition of counseling is to provide advice or guidance. In helping borrowers through a loss mitigation process, counseling agencies do, in fact, provide some guidance and advice. Just as important, however, the agencies are *educating* clients about the loss mitigation process with the goal of helping clients to more effectively manage this

¹⁴ For example, a survey conducted for Freddie Mac found that 11 percent of delinquent borrowers did not contact their borrower out of fear or embarrassment while another 28 percent thought their lender could not offer any assistance to them. ("Interventions in Mortgage Default: Policies and Practices to Prevent Home Loss and Lower Costs," by Amy Crews Cutts and William A. Merrill, Freddie Mac Working Paper #08-01, March 2008.)

process on their own. There are also many situations where agencies will act directly with lenders on behalf of their clients, and so are acting more as *advocates* than counselors. In response to the overwhelming demand for assistance, many agencies have also adopted an approach where they will provide support for clients to follow through in managing their own case with lenders. In this way, agencies may be thought to act as *coaches* who are there to encourage clients to act on their own behalf. In addressing their clients needs' and in adapting to the overwhelming demand for assistance in the foreclosure crisis, counseling agencies have been developing approaches that provide different combinations of counseling, education, advocacy, and coaching.

Borrowers in need of assistance cover a broad spectrum of need. In some cases, borrowers have a great deal of organizational capacity to manage their own cases, but lack sufficient knowledge of how lenders operate to work effectively through the loss mitigation process. For these borrowers, a modest level of support to educate them about the process and to coach through them through key steps will be sufficient to put them on a path to a resolution. Other borrowers may lack organizational skills or be emotionally overwhelmed by their circumstances so that they are unable to truly manage their case on their own. These borrowers may need direct advocacy with lenders on their behalf or at least very proactive coaching to be able to get through the loss mitigation process.

In the next section we describe our findings regarding the approaches used by the five agencies in Baltimore, and will identify how these agencies vary in how they emphasize these different aspects of the counseling process.

4. Approaches to Foreclosure Counseling

This section describes the process that we observed for foreclosure counseling at the five Baltimore agencies examined for this study. Our review revealed that agencies largely follow a common approach to working with borrowers. In part, this may reflect a natural evolution in the industry toward best practices that have been learned in responding to the crisis since 2008. In fact, a series of cases studies commissioned by Freddie Mac on best practices in foreclosure intervention counseling describe a number of the common approaches found among the Baltimore agencies examined in this study.¹⁵ The similarities may also arise from the agencies operating in the same market area and so likely having participated in common training opportunities and having opportunities to share their experiences, such as through their participation in BHPC. However, another important element driving these similarities is the funding requirements associated with NeighborWorks America's NFMC program, which is an important source of funding for all five agencies studied. The section begins by discussing the common stages of the counseling process, then describes variations across agencies in their approaches, and concludes by presenting a few illustrative counseling cases to illuminate how the counseling process was found to work in practice.

Key Steps in Foreclosure Counseling

The first step in the counseling process is *intake*, which occurs when the borrower first contacts the agency. Borrowers speak with an intake counselor, either by telephone or in-person, and provide some basic information about themselves and their mortgage situation. Typically, this conversation is short, although, as discussed below, two of the five agencies have recently instituted more involved intake process. In general, the intake counselor obtains at least basic information on the client's circumstances and mails or e-mails a packet of information to the borrower that describes the range of loss-mitigation options, indicates the documentation the borrower needs to provide in order to initiate a loss-mitigation review, and provides other forms the borrower needs to sign to receive services from the agency. Borrowers are instructed to complete the forms in the packet, assemble the required documentation, and return them to the counseling agency as soon as possible. Once the documents are returned, the intake counselor schedules an appointment for the borrower to meet with a foreclosure counselor, either in-person or by telephone. The intake process is generally designed to begin the process of educating borrowers about the loss mitigation process and the options available, either through information imparted by the intake staff and/or through documents sent to borrowers as part of the intake package.

In the agencies studied here, the second step in the counseling process is the *first individual counseling session*.¹⁶ This session typically lasts one to two hours and is the core of the foreclosure counseling intervention. In this session, the counselor typically reviews the borrower's loan documents, income, expenses, debts, and current mortgage status. The counselor and borrower talk

¹⁵ See series at <http://www.freddie.mac.com/corporate/housingpros/#foreclosurebestpractices>.

¹⁶ Although not evident at present in the agencies examined for this study, some counseling agencies use a group session as the first step following the intake process. See, for example, "Serving Distressed Borrowers in Groups," by Doug Dylla and Dean Caldwell-Tautges, available at: http://www.freddie.mac.com/corporate/housingpros/pdf/bestpracticesfore_servdistress_homeowners.pdf.

about why the borrower fell behind on his/her payments and about the borrower's employment situation and other issues that affect his/her ability to make up the missed payments or afford any type of mortgage payment. The counselor then presents the loss-mitigation options likely to be available to the borrower and discusses the loss-mitigation process. They agree upon an action plan and typically contact the servicer together to initiate the loss mitigation review. If the borrower is far along in the foreclosure process and has received a sale date, the counselor may also provide a referral for legal assistance, which in Maryland is available pro bono as part of a state-sponsored network of volunteer lawyers. However, one of the agencies studied has their own legal staff and refers clients directly to them at intake if foreclosure has been initiated. This process may change in the wake of the new state law requiring mediation upon a borrower's request.

At the agencies studied, borrowers were required to have submitted copies of all documents generally required by lenders as part of the loss mitigation review prior to holding this first counseling session. With this requirement in place, the counselor is generally able to submit a loss mitigation application package to the servicer at this initial session. Although in some cases the borrower may not have all of the documentation needed and so will either have to come back to provide the counselor with the missing documents or will submit the complete package to the lender on their own.

The next stage in the counseling process is *ongoing case management*. This is the interaction that happens between the counselor, borrower, and servicer while the borrower's case is under review and before a resolution is obtained. As discussed below, the agencies vary substantially in their approach to ongoing case management, with some agencies actively managing this stage of the process on behalf of clients while others rely on borrowers themselves to manage this process.

The counseling engagement typically ends when the borrower obtains an initial resolution, such as a trial loan modification, a repayment plan, or a rejection of the loan modification request by the servicer.¹⁷ At that point, the counselor typically closes the case and does not have further contact with the borrower unless the borrower contacts the agency again for further assistance. Many counseling agencies aspire to do *post-resolution follow-up*—i.e., to follow up with the borrower to ensure that she is managing her new mortgage payments, succeeded in turning trial modifications into permanent modifications, or has transitioned into new housing—but agency budgets usually do not support such outreach by counselors. Counselors also report that it is difficult to engage with borrowers once some type of resolution has been achieved.

As noted above, we observed many similarities across the five agencies in the study in their approach to intake and the first individual counseling session. An important force driving the approach is the structure of the funding provided by the NFMC program.¹⁸ For all five agencies, NFMC is a very important funding source for foreclosure counseling activities. NFMC divides foreclosure counseling services into three categories of activities—Level One, Level Two, and Level Three counseling—and

¹⁷ Counselors at this stage could also assist the borrower with a short sale or deed-in-lieu disposition options, but we did not see any examples of these approaches in our sample.

¹⁸ The study did not gather information on the sources of funding relied upon by the five agencies to support their foreclosure mitigation counseling. While all of them receive NFMC funding and participate in state-supported foreclosure counseling programs, there are undoubtedly differences in the amount and sources of funding they use to support these efforts.

compensates agencies according to the units of counseling provided in each category. The categories are defined as follows:

- **Level One** counseling involves developing a basic budget and action plan for the borrower.
- **Level Two** counseling involves verifying the borrower’s budget, creating a more detailed action plan to avoid foreclosure, and helping the borrower pursue that action plan.
- **Level Three** counseling indicates that the borrower has received Level One and Level Two counseling within the same reporting period.

The five agencies in the study have structured their counseling process so that the standards for Level One counseling are achieved during the intake process where basic information on the cause of the borrower’s distress and current financial situation are obtained and plan for an individual counseling session to initiate the loss mitigation process is made. The standards for Level Two counseling are then generally achieved in the first counseling session, where the borrower is required to bring in documents to substantiate their budget and the lender is contacted to carry out the action plan to pursue loss mitigation options. Notably, with no further funding available from the NFMC program for efforts to assist the borrower beyond the initial counseling session, there is no financial incentive for ongoing case management or for post-resolution follow-up. However, agencies are evaluated by the NFMC program based on the outcomes borrowers achieve and obviously have a mission-driven incentive to work with borrowers until at least an initial resolution is obtained.

Variations in Approach to Intake and Ongoing Case Management

We observed substantial variation among the five agencies in the study in two steps of the counseling process: intake and ongoing case management.

Intake

With respect to intake, two of the five agencies recently moved to a process that includes more counseling components than the process described above. At one agency, the intake counselor is a trained and experienced foreclosure counselor. She spends about a half hour with each borrower who calls in, reviewing the borrower’s financial circumstances and budget, identifying the reasons the borrower has fallen behind or is worried about falling behind, and creating an action plan for the borrower. At this agency, the intake process may be sufficient to help some borrowers—such as borrowers who are current on their mortgage or have already submitted a loan modification request—to resolve their issues. If the intake counselor determines that the borrower would benefit from additional counseling services (as is the case most of the time), she will schedule an appointment for the borrower to meet with one of the agency’s foreclosure counselors. The intake counselor will review the loss-mitigation process with the borrower and tell him/her which documents s/he needs to bring to the counseling session.

The other agency in the study that follows a different intake process recently began holding group workshops as a first step for everyone seeking foreclosure counseling services. (This approach started early in 2010, so is not reflected in the borrower cases reviewed for this agency.) When a

person calls in to the agency, they are invited to participate in a workshop to learn more about the loss-mitigation process and about what they need to do to work with their servicer. The workshops are held weekly during the lunch hour and are conducted via conference call to preserve borrowers' anonymity. A foreclosure counselor conducts the workshops. At the conclusion of the workshop, borrowers are told to submit a set of documents to the agency that will be needed for requesting a loss mitigation solution (similar to the intake packet required by other agencies). The agency will not schedule an individual counseling session for a borrower until he or she has submitted all or most of the required documents—similar to the other agencies in the study.

In the remaining two agencies, the intake process is still used to gather basic information on the borrower's circumstances and to provide instructions on the documents that the borrower needs to assemble to be eligible for an initial counseling session. However, the staff conducting intake have little training on counseling or the loss mitigation process and so the intake session is not designed to begin educating borrowers about this process or their options. But in all cases, the packet of information sent to borrowers includes descriptive information on loss mitigation options and the process used by lenders to help educate borrowers about these issues.

The use of a formal intake process appears to have evolved to help make more efficient use of staff time in serving the large volume of clients seeking assistance. One of the Freddie Mac case studies describes how at the start of the foreclosure crisis, the approach used by a large counseling agency in Cleveland was to immediately schedule all incoming clients into an individual session.¹⁹ However, the agency found that there were a significant number of clients that failed to come in for their appointments, wasting counselors' time. In other cases, clients came in but without any documentation of their current situation, which made it difficult to make progress on their pursuing loss mitigation with lenders at the counseling session.

The different approaches that we observe across the agencies are all geared at the common goal of ensuring that borrowers are motivated to pursue counseling and ensuring that borrowers are as prepared as they can be when they meet with a foreclosure counselor. As noted in the Freddie Mac case study referenced above, the rationale for incorporating an intake stage into the counseling process "is to assure that counselors are serving the most motivated and committed homeowners." One implication, however, is that completing intake forms and assembling the required paperwork to go into the first counseling session was a major hurdle for less organized borrowers and borrowers who were having the most difficulty managing the emotional stress of their situations.

At the same time, if a borrower goes straight into an individual counseling session with no education about the process or which documents are needed to request a loss-mitigation review, the foreclosure counselor will spend a lot of time explaining this basic information rather than reviewing the borrower's budget and circumstances, advising the borrower on his options, and contacting the servicer. In the current economic crisis, agencies understand that they must make the best use of counselors' time in order to meet the demand for counseling services with the limited funding available.

¹⁹ "Helping More Homeowners Through Efficient Service Delivery," prepared by Doug Dylla and Dean Caldwell-Tautges, published by Freddie Mac, and downloaded July 20, 2010 from http://www.freddiemac.com/corporate/housingpros/pdf/bestpracticesfore_helpinghomeowners.pdf.

This intake process can also serve the function of providing borrowers with a vent for their emotional frustrations about their situation, which spares counselors from having to spend time providing this emotional support in the initial session.

Having the intake counselor take on more of a counseling role, as described above, is one way to educate and motivate borrowers and also to “triage” the more serious cases to the foreclosure counseling specialists. The intake counselor gets through a lot of the basic information with borrowers and provides basic counseling to those who need only a small amount to set them on the right path, thus preserving the specialists’ time for the cases that need immediate attention. It is possible for the intake process to be designed to direct clients to different types of assistance based on an assessment of their needs. One of the Freddie Mac best practices case studies describes a triage process used in Minnesota where borrowers are steered to different types of support depending on assessment of their ability to retain their home, including giving guidance to help them manage their case on their own if they seem able to do so.²⁰

Two of the agencies in the study use the intake process to identify borrowers that might be in need of legal assistance. One of the two agencies has attorneys on staff. At this agency, the intake counselor identifies whether the borrower has received a notice of intent to foreclosure or a sale date. Borrowers with sale dates are referred directly to an attorney; all others are assigned to a counselor. The other agency creates a “flag” for the counselors if a borrower comes in with a sale date. This alerts the counselors that the borrower might need a referral to the pro-bono legal services available in Baltimore. However, at this agency, as at the other three in the study, those referrals tend to happen only after the borrower has had the first individual counseling session and contacted the lender, if at all. Altogether, we found few referrals to pro-bono legal services, even in cases where borrowers were facing foreclosure.

Ongoing Case Management

In addition to their intake practices, the agencies in the study vary in their approach to ongoing case management. The main difference among the agencies relates to whether the process for following-up with the servicer after the loss-mitigation request has been submitted is managed by the borrower or managed by the counselor. At one extreme, one agency’s approach had the counselor actively managing the process on the borrower’s behalf, including proactively contacting the lender to manage the process and contacting the borrower to keep them engaged in the process. The remaining agencies generally expressed a point of view that their role was to educate borrowers about the loss mitigation process during the counseling session, to help them start the process with lenders, and then to empower them to take an active role in managing their own cases going forward. At two agencies, borrowers are instructed that it is their responsibility to follow up with both servicers and the counselor to help move their case along, but these agencies still have a formal process whereby they check in with borrowers they have not heard from once a month or every six weeks. At the last two

²⁰ “Using Triage Protocols to Manage Overwhelming Demand for Foreclosure Intervention Counseling More Effectively,” prepared by Doug Dylla and Dean Caldwell-Tautges, published by Freddie Mac, and downloaded July 20, 2010 from http://www.freddiemac.com/corporate/housingpros/pdf/bestpracticesfore_usingtriage.pdf.

agencies, counselors do not proactively follow-up with borrowers after the loss-mitigation request has been submitted, although they tell borrowers to keep in touch and continue to work with those call in.

For simplicity, we have labeled the approach in which the counselor drives the process, as exemplified by Agency 1, as an “advocacy” approach. The approaches in which borrower is expected to drive the process with support as needed from the counseling agency may be thought of as a “coaching” approach. The Freddie Mac case studies document this approach where one agency director noted “We are the coaches, it’s not our game, not our decision.”²¹

While Agency 1 most clearly pursues an advocacy approach and the other four agencies largely follow the coaching approach, we find examples of each approach at every agency. For example, a counselor that generally follows a coaching approach may play more of an advocacy role for a particular borrower, and vice versa. In some cases, counselors may become more invested in certain cases and pursue a more advocacy approach, either because of greater empathy for the borrower’s situation or because they just develop a strong personal rapport with that particular individual. And it should be noted that all of the counselors interviewed for the study see themselves as advocates for their borrowers, even if they follow more of a coaching approach in terms of how they provide ongoing case management.

Two factors appear to drive these differences in approach. The first is staff resources. Several agencies in the study that use a coaching approach said they simply did not have the staff capacity to follow up with borrowers who fail to keep in touch with their counselors. There is tremendous demand for foreclosure counseling, and counselors need to focus their time where their specialized skills and knowledge are really needed: in helping borrowers evaluate their financial situation and mortgage options and in working with servicers and lenders to get borrowers’ cases reviewed for loss-mitigation solutions. It is also significant that the NFMC program does not provide funding beyond the assistance provided at Level 2—which is achieved with the first counseling session. Any efforts provided by counseling agencies after this session are essentially unfunded by NFMC and so must be covered by other sources of funding or through any efficiencies achieved by the agency in providing Level 1 and Level 2 counseling.

The second factor driving the different approaches to ongoing case management is a philosophical difference among agencies about what is best for the borrower long-term. Counselors that follow a coaching model argue that putting the onus on borrowers to follow up with the servicer and counselor teaches borrowers to take greater responsibility for addressing their mortgage problems. In the coaching model, the counselor is there to support the borrower through the loss-mitigation process but will not do all the work for him. Counselors know that some borrowers will get behind on their mortgage again, and they hope that by making borrowers do much of the follow-up work, they will empower borrowers to be more proactive with their servicers the next time around. As one counselor interviewed for the study put it, “I want to train my clients to do it for themselves, so that next time around they can at least take the first step [submitting the loss-mitigation packet] on their own.”

²¹ “Managing Foreclosure Counseling Caseloads and Costs,” prepared by Doug Dylla and Dean Caldwell-Tautges, published by Freddie Mac, and downloaded July 20, 2010 from <http://www.freddiemac.com/corporate/housingpros/pdf/bestpracticesfore.pdf>.

Some counselors also suggested that having the borrower rather than the counselor drive the process with the servicer signals to the servicer that the borrower is serious and organized, thereby making the servicer more inclined to offer a loan modification. However, we saw no evidence of this in the small sample of borrower cases reviewed that servicers discounted borrowers' interest in maintaining ownership of their homes in cases where counselors were acting as advocates on their behalf. Having counselors assist borrowers in making an initial connection with lenders' loss mitigation departments was clearly very helpful, as we found several cases where borrowers had been frustrated by efforts to work with lenders. But after their initial contact with the counselor's assistance, some borrowers were able to manage the process from that point forward.

Pros and Cons of the Coaching vs. Advocacy Approach

The coaching approach is both efficient and appropriate in cases where borrowers simply need education and support to start the loss mitigation process and to manage it over time. Particularly for borrowers with good organizational skills, the information provided through the intake process, the initial counseling session, and the process of working with the lender, may be sufficient for the borrower to successfully navigate the loss mitigation process.

However, counselors that take more of an advocacy approach contend that some borrowers are simply unable to manage following up with servicers effectively and need the counselor to keep calling them and pushing them to make it through the process. The advocacy approach takes more counselor resources, but it may lead to a better resolution for the borrower – particularly if the counselor has in-depth knowledge of the range of loss-mitigation options and is able to analyze the servicer's proposed solution critically and negotiate for something more advantageous. The advocacy approach is also more likely to keep less motivated, less organized, and more emotionally overwhelmed borrowers engaged in the loss mitigation process because it lessens the burden on them for following up with the counselor and servicer. We would therefore expect that agencies that use an advocacy approach would have fewer cases of borrowers dropping out of counseling after completing the first individual counseling session. As discussed in Section 5 below, we have some evidence from our sample of 51 borrowers that this is the case.

One of the simplest ways to understand the difference between the advocacy and counseling approaches is in terms of the number of interactions between borrowers and counselors and borrowers and servicers. Counselors that follow an advocacy approach, in which the counselor is primarily responsible for following up with borrowers and their servicers, will tend to interact with borrowers more frequently over the course of the counseling engagement.

Exhibit 5 shows the average number of interactions between counselor and either the borrower or the servicer for the five agencies in the study, based on the sample of 51 borrower cases reviewed. The agencies are organized by case management approach, with Agency 1 following mainly an advocacy model, Agencies 2 and 3 following mainly a coaching model but with some elements of the advocacy model, and Agencies 4 and 5 primarily following a coaching model.

The exhibit shows that counselors tend to have more frequent interaction with borrowers and lenders in agencies that follow an advocacy approach or incorporate some elements of the advocacy approach. This can be seen in the average number of counselor interactions per borrower, which

ranges from 12.2 for Agency 1 to 3.4 for Agency 5. For the average borrower in our sample for Agency 1, the counselor met or spoke with that borrower or his servicer 12 times while the borrower was in counseling. By “met or spoke with” we mean substantive interactions between the counselor and the borrower/servicer via telephone, e-mail, or in person. (We do not count messages left on answering machines or e-mails sent simply confirming receipt of a document.) By contrast, for the average borrower sampled from Agency 5, the counselor met with the borrower or servicer just over 3 times. Typically, this includes the first counseling session with the borrower, and two follow-up calls either to the borrower, the servicer, or both together.

Exhibit 5. Average Number of Interaction Between Counselors, Borrowers, and Servicers by Agency and Case Management Approach

	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5
Primary case management approach	Advocacy	Coaching/ Advocacy	Coaching/ Advocacy	Coaching	Coaching
Average number of counselor interactions	12.2	9.1	8.8	6.2	3.4
Average number of days of active engagement	98.5	59.4	100.8	55.1	97.9
Average counselor interactions per day of active engagement	0.67	0.60	0.11	0.32	0.15

Source: Review of 51 borrower files.

The “average number of days of active engagement” in Exhibit 5 is calculated by counting, for each borrower in the sample, the number of days from the date of the borrower’s first counseling session to the date of the borrower’s last interaction with the counselor as of mid-April 2010, when our file review took place. The agencies that followed more of an advocacy approach did not necessarily work with borrowers for more days than the agencies that followed more of a coaching approach, but they interacted more frequently with borrowers and servicers during the period of active engagement. The lengthy period of time of active engagement also reflects the fact that most agencies had a practice of contacting all borrowers after 90 days to gather information on their outcomes for NFMC reporting purposes. In many cases, outcomes such as loan modifications or payment plans were achieved by clients on their own after the initial counseling session, which was discovered by agencies during their 90-day follow-up contacts.

Illustrations of Counseling Approaches

Following are “case studies” of the counseling experiences of five borrowers that serve to illustrate differing levels of organization and motivation on the part of borrowers as well as different approaches by counseling agencies, and how the counseling approach interacts with the client’s characteristics and situations to produce the outcome observed. Each example comes from a different agency in the study and represents a different combination of counseling approach and client type. The case studies use pseudonyms to protect the borrowers’ identities..

Case 1: Mary

Mary's case is an example of how the advocacy approach can help a highly disorganized client navigate the loss-mitigation process and achieve a successful outcome.

Mary called the agency in late September 2009, the day after receiving a notice of intent to foreclose. The intake staff told Mary to complete the agency's intake paperwork as quickly as possible and assigned her case to a foreclosure counselor. After a week the agency had not heard back from Mary, so the counselor called her and left a message. Mary called back the following week and provided the counselor with the information she needed to contact the servicer. The counselor contacted the servicer, who advised Mary to submit a request for HAMP. The counselor then contacted Mary and told her which documents she needed to provide. Mary said she would work on it. At this point, it was late October, and three weeks had gone by since Mary first called the agency.

Two weeks later, in mid-November, the counselor called Mary to check in. Mary said she was still working on assembling the paperwork. According to the counselor, Mary sounded depressed and was having trouble focusing. The counselor called Mary again in early December and learned that Mary had just received a sale date for her house. The counselor contacted the servicer, who told her Mary needed to submit the HAMP request as soon as possible. The counselor relayed this to Mary, who came to the agency the next day with the required paperwork. The counselor submitted the HAMP request and offered Mary a referral for mental health services.

A few days later, in mid-December, the servicer informed the counselor that Mary's income was too low to qualify for HAMP. At the same time, Mary received a job offer. The counselor successfully requested a postponement of the sale date (scheduled for the next week). In late December, the servicer told the counselor that Mary was being considered for the lender's internal loan modification program. The counselor called Mary to explain this to her.

Two weeks later, in early January 2010, the counselor received word that the borrower had received a permanent loan modification through the lender's loan modification program. Mary came to the counselor's office to review and sign the modification. They submitted the documents and the counselor formally closed the case. However, the counselor continued to work with Mary for several weeks to resolve issues related to her homeowners' insurance.

Mary's case is one in which the agency's advocacy approach (i.e., the counselor managing the process on the borrower's behalf) was critical to a successful outcome. (Mary worked with Agency 1). At the time she sought housing counseling, Mary was three months delinquent on her mortgage, was not employed, and appears to have been overwhelmed by her situation. She did not return the intake packet in a timely manner, and had the counselor not called her directly to follow up, she might not have made it to the first counseling session. She then failed to assemble the documentation for the HAMP request on her own, needing repeated prodding (and a notice of a sale date) to pull the records together. During this period, the counselor kept in touch with the servicer to let him know Mary was still interested in pursuing a loss-mitigation solution. Once the paperwork was in to the lender, it took only a month for the lender to offer Mary a permanent loan modification.

Case 2: Darcy

Darcy's case is an example of how the coaching approach works for a moderately organized client.

Darcy called the agency in mid-September 2009. She was current on her mortgage but her expenses had recently gone up due to a child starting college. The counselor met with Darcy for two hours in late September. As part of that session, they contacted the servicer, who told Darcy that she was eligible for a temporary forbearance providing a reduction in her mortgage payment starting at the end of October. At that time, Darcy's mortgage would be reviewed for modification.

Darcy began making the lower payments in October. She and the counselor contacted the servicer again in late December to check on the request for loan modification. The servicer said her application was still under review. In late January 2010, Darcy received a notice from her servicer stating that the request for modification had been denied and immediately called the counselor to let him know. The counselor called the servicer to confirm, but the servicer said Darcy's file was still under review and that Darcy should continue to make payments at the lower amount until further notice. The counselor called Darcy to let her know what he learned. He planned to follow up with her in early April.

Darcy was considerably more organized than Mary. She sought counseling prior to getting behind on her mortgage and did not have any trouble assembling the required documentation. She was also prompt in letting the counselor know when her modification was denied. This was critical because when the counselor called the servicer he learned something different. Had Darcy not called him she might have stopped making payments and given up.

This example is from an agency that uses a coaching approach to support their clients after the initial counseling session. In this case, a lack of strong advocacy by the counselor may not have hindered the process, but it is also not clear whether stronger advocacy on her behalf may have been warranted. As of March 2010, when the case review was conducted for this agency, Darcy's future was uncertain. The counselor had not spoken with Darcy since January and the status of Darcy's loan modification request, pending since October, was still unknown. Darcy had not been back in touch, which may indicate that nothing had happened or that Darcy had chosen to continue negotiations on her own. The counselor said that he planned to follow up with Darcy early in April, but at that point a resolution may have already been achieved. This may be a case where more aggressive follow-up by the counselor could be warranted, even though the borrower seems quite organized, as the servicer was slow to act and sending mixed signals. Darcy's lack of experience with the process may have led her to be overly passive in working the servicer, rather than actively pushing for a quicker resolution before her situation worsened and she faced a risk of foreclosure being initiated.

Case 3: Alvaro

Alvaro's case is an example of the value that a counselor can provide even for highly organized clients because of the counselor's experience working with servicers and industry contacts.

Alvaro approached the agency for foreclosure counseling in June 2009. Earlier in the year, Alvaro's wife had been ill with cancer and forced to give up her job, and Alvaro had reduced his work hours during that time. Unable to keep up with his mortgage, Alvaro had been contacting his servicer and

sending in documentation for a loan modification since March, without any response from the servicer. By the time he sought housing counseling, Alvaro was four months behind on his mortgage.

At his first individual counseling session, Alvaro and the counselor called the servicer to check on the status of his loan modification request. The servicer told them the request was still under review. The counselor then called the borrower a week later to find out if he had received any update; he had not.

The counselor knew that Alvaro's servicer serviced loans made through one of the state's affordable homeownership programs and she had a contact at that state agency. In late June, the counselor called her contact at the state and described the situation. The person at the state reviewed Alvaro's financials and agreed to open an investigation of his case.

The next week, the state contact told the counselor that the servicer needed a payment of \$615 and then would allow Alvaro to make a partial payment for the next three months. Alvaro sent in the \$615 in early July. The counselor did not hear from Alvaro over the next three months. In late November 2009, the counselor called her contact at the state and learned that Alvaro had been approved for a repayment plan. The counselor called Alvaro and told him she had heard about the repayment plan. Alvaro sent the counselor a copy of the repayment plan agreement. At that point, the counselor closed the case.

The most notable aspect of this case is that despite the borrower's apparently organized efforts to engage with his lender, he had not been able to get the lender to reach a decision about a loss mitigation solution to his case. This is a case where the counselor largely followed the coaching model, allowing the borrower to largely manage the case on their own, but within that framework took the critical step of reaching out to a key contact at a state agency with an interest in the mortgage, which seems to have been the key factor in getting the servicer to focus on Alvaro's case. But other than this step, the counselor did not contact Alvaro proactively during the partial payment period, and only re-contacted the lender after a few months to close out the case. Alvaro benefitted greatly from the counselor's intervention, without which he might still have been waiting for a response from the servicer, and does not appear to have needed more intensive case management.

Case 4: Bruce

Bruce's case is an example of how agencies that follow a coaching model can work very efficiently with borrowers, particularly borrowers who are well organized. The case also highlights how agencies often have no contact with borrowers after the point when they receive an initial workout option.

Bruce was laid off from his job and living off unemployment insurance. He was current on his mortgage but worried about his ability to make future payments. He called the counseling agency in mid-October 2009 but did not immediately turn in the paperwork required to meet with a counselor. A week later, the agency sent him a follow-up notice indicating that he needed to get back in touch if he still wanted to pursue counseling. Bruce then called the counselor directly the next week and together they submitted a loan modification request to the servicer. At that point, in late October, Bruce was still current on his mortgage. About a month later, Bruce received a letter from the

servicer approving a lower payment for the next five months while Bruce sought employment. At the end of the five-month period, once his employment situation was clarified, Bruce would be considered for a more permanent solution. As of April 2010, when the five-month forbearance was set to expire, the counselor had not had any contact with Bruce since November 2009.

In this case, Bruce had sought counseling proactively but needed a little push at the start to pull the required paperwork together. It appears that receiving the letter from the counseling agency encouraged him to get engaged. Bruce's loss mitigation request went through smoothly, with minimal intervention needed from the counselor other than helping Bruce to assemble and submit the packet. But we have no indication of how Bruce fared during the forbearance period, whether he obtained employment, or whether at the end of five months he received a trial loan modification. This agency does not have sufficient resources for counselors to follow-up with borrowers and Bruce had not been back in touch with his counselor.

Case 5: Daniel

Daniel's case is a further example of how borrowers often drop out of counseling before a resolution is obtained or known by the counselor, which is more common for agencies that follow a coaching model.

Daniel had lost his job and was two months behind on his mortgage at the time he contacted the agency in mid-October 2009. He spoke to an intake counselor and about three weeks later sent the agency some of the paperwork required to proceed with counseling. Seeing the paperwork was incomplete, the foreclosure counselor assigned to Daniel's case called him and left him a message.

Daniel returned the call the following week, about one month after he first called in, and completed his first individual counseling session by telephone. The counselor advised Daniel to provide the remaining paperwork as soon as possible so that they could submit a loss-mitigation request. He did so and they contacted the servicer that same day. The counselor then sent Daniel's documents to the servicer, requesting forbearance. The following week, in early November, the counselor followed up with the servicer to ensure Daniel's paperwork was received. She called Daniel that same day to let him know the paperwork was received and to remind him to follow up with the servicer on a regular basis. As of April 2010, the counselor had not heard from Daniel since November 2009.

This agency generally follows a coaching approach, relying on borrowers to manage the loss mitigation process. But the agency did provide meaningful proactive support for the borrower up through the point that the loss mitigation application was submitted. Like Bruce, Daniel needed some further contact with the agency (beyond the initial conversation with the intake counselor) to get past the stumbling block of assembling paperwork to work directly with a foreclosure counselor. In this case, the counselor actively pursued Daniel to get him to complete this process and submit the package to the lender. But the record for this borrower ends after the counselor confirmed the servicer's receipt of the paperwork. Under this agency's coaching approach, the onus was on the borrower to follow up with the servicer and counselor once the initial application was successfully submitted. Given that Daniel's case was far from resolved at the time of last contact with the agency, he appears to have dropped out of counseling. Whether he was able to successfully negotiate a loss mitigation solution with his lender on his own is unknown.

5. Borrower Outcomes and Experiences

In this section, we examine the outcomes achieved by the 51 borrowers in our study sample. Obviously, the small number of client cases reviewed does not support statistically significant assessment of outcomes across the agencies studied. Instead, the review is meant to provide a qualitative assessment of how different approaches to counseling interact with client circumstances to produce the outcomes observed. While we cannot draw definitive conclusions about the effectiveness of different approaches, the findings do shed some light on the strengths and shortcomings of the different approaches observed across the agencies studied.

Borrower outcomes are also dependent on local housing market conditions, as lenders' decisions about whether to offer a loan modification depends in part of the likely sales value of the house if taken through foreclosure. Many of the borrowers in our sample live in lower-income neighborhoods of Baltimore, where vacancy levels can be quite high and demand for homes limited. In these circumstances, it may make sense for lenders to offer modifications to borrowers who have expressed a desire to retain their homes even if their financial circumstances suggest that succeeding at this goal will be difficult. But since our study did not include any contacts with lenders, we do not have information on the decision-making process from the lenders' point of view.

Among our sample, outcomes include positive resolutions to the mortgage delinquency, such as paying off the mortgage, starting a repayment plan, and receiving a trial or permanent loan modification, as well as negative resolutions such as foreclosure and bankruptcy. We also found a number of borrowers whose cases were still under review by the servicer, even though in most cases it had been six months since they had started foreclosure counseling. We labeled these borrowers as being "in process." Finally, some borrowers fell out of contact with the counselor before a resolution could be realized. If a borrower had once been actively engaged in counseling but at the time of our review had not had contact with the counselor for at least 60 days, we considered that borrower to have dropped out of counseling.

Exhibit 6 summarizes the outcomes observed among the 51 borrower cases sampled. Overall, 53 percent of the borrowers in the sample (27 people) had been able to avoid foreclosure and retain their homes as of April 2010, when we conducted the file review. Most of these borrowers (20 of the 27, or 39 percent of the total sample) obtained a trial or a permanent loan modification.

Since the main variation we observed across agencies was the degree to which they stressed what we have labeled as an advocacy versus a coaching approach, we have sorted the agencies in the table by the degree to which these different approaches were emphasized. Agency 1 most exemplified the advocacy approach, while agencies 4 and 5 relied to the greatest degree on a coaching approach. Across the five agencies, the percentage of borrowers who retained homeownership was clearly highest at Agency 1, with 90 percent of borrowers obtaining a home retention workout of one type or another. Across the remaining agencies, the share of clients retaining their homes ranged from a high of 60 percent (Agency 5) to a low of 29 percent (Agency 2). However, Agency 2 had another 29 percent of clients still in process, and so may yet achieve a higher retention rate.

While our sample is admittedly small, aside from the outcomes at Agency 1, we do not see any strong pattern among these cases suggesting that an advocacy approach has a significant advantage over a coaching approach in producing positive outcomes. Our detailed review of individual cases found that there were a number of cases where efforts by the counselor to start the loss mitigation process with the lender at the initial session was sufficient to put the borrower on a path toward a resolution. This was definitely true of borrowers with good organizational skills who benefited from the knowledge gained through counseling. Even disorganized homeowners were often able to reach a resolution through a combination of lenders and counselors leading them through the process. While borrowers left to their own devices may have had a tendency to experience longer delays in reaching a resolution, we did not find any cases in our sample where these delays resulted in missed opportunities to obtain a workout. But it is possible that the weak Baltimore housing market was a factor in lenders' seeming reluctance to pursue foreclosures with borrowers willing to work with them to make continued payments.

Exhibit 6. Borrower Outcomes in Sampled Cases

Outcome	Case Management Approach					All Agencies
	Advocacy.....Coaching					
	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	
Retained Homeownership:						
Trial or Permanent Modification	60%	21%	44%	13%	60%	39%
Repayment or Forbearance Plan	10%	7%	11%	25%	0%	10%
Brought Current or Paid in Full	20%	0%	0%	0%	0%	4%
Subtotal	90%	29%	56%	38%	60%	53%
Failed to Retain Homeownership:						
Foreclosure	0%	7%	11%	0%	0%	4%
Bankruptcy	0%	14%	0%	0%	0%	4%
Subtotal	0%	21%	11%	0%	0%	8%
In Process	0%	29%	33%	13%	20%	20%
Dropped Out	10%	21%	0%	50%	20%	20%
Grand Total	100%	100%	100%	100%	100%	100%

The most obvious consequence of a coaching approach is a tendency for more clients to drop out of counseling. Half of the clients at Agency 4 were found to have lost contact with the counseling agency before any resolution was reached with the lender. In this case, the agency files indicate that there was no real attempt at follow up with these clients by the agency, leaving to the client to reach out for further assistance from the counselor. But even the two agencies using a more advocacy-oriented approach experienced some drop outs as there will always be situations where clients are not sufficiently motivated to follow through on counseling or may simply decide that they do not need the agency's assistance.

However, our data may understate the extent to which clients drop out of the process. In several agencies, the individual client files selected for review in the study were drawn from clients who had completed an initial counseling session. In many cases, client drop out would occur after the intake

session, where borrowers fail to submit required documentation or otherwise fail to pursue the opportunity for an individual counseling session. Our distribution of outcomes may be skewed to some extent by a selection bias in terms of the clients who get through the first counseling session. Given the steps required, these clients must generally be fairly motivated and/or organized to reach this point. These clients may be better positioned to succeed on their own than the average borrower contacting agencies for assistance.

We did explore whether there were any associations between key borrower characteristics and the outcomes realized. One factor that would seem to be potentially quite important is the client’s stage of delinquency when they first seek counseling. As shown in Exhibit 7, we did not find any meaningful variation in the ability to obtain a home retention workout and the degree of delinquency.

Exhibit 7. Borrower Outcomes by Degree of Delinquency

	Current	1 to 3	4+
Retained Homeownership	57%	61%	50%
In process	29%	13%	20%
Dropped out	0%	26%	15%
Foreclosure/Bankruptcy	14%	0%	15%
TOTAL	100%	100%	100%

We also did not find an association between borrower income levels and the share obtaining a home retention workout. As shown in Exhibit 8, 60 percent of borrowers both with incomes below \$30,000 and above \$80,000 obtained a workout. This reflects the fact that higher income households had larger mortgages, so they faced a similar payment burden in terms of percent of income as lower income households. That said, regardless of income level, the key factor for borrowers in obtaining a workout is whether they had sufficient income to support their mortgage, whether modified to reduce payments or not. If borrowers were willing and able to make payments, lenders were generally willing to work with them to implement a workout.

Exhibit 8. Borrower Outcomes by Household Income Category

	% in Income Category that Retained HO
Less than \$30k	60%
\$30 to \$60k	60%
\$60 to \$80k	25%
More than \$80k	60%

We also considered the relationship between borrower race and outcomes. Thirty-four of the sampled borrowers were African-American, non-Hispanic, 13 were White, non-Hispanic, two were Hispanic, and two were another race. Comparing the outcome of White and African-American borrowers in

this very small sample, African-American borrowers seem more likely to drop out of counseling. This would be an interesting hypothesis to explore with a larger sample.

Exhibit 9. Borrower Outcomes by Borrower Race

	African-American	White
Retained Homeownership	50%	54%
In process	18%	23%
Dropped out	26%	8%
Foreclosure/Bankruptcy	6%	15%
TOTAL	100%	100%

A key factor in determining outcomes that we were not able to observe in the information available to the study is the market value of the home relative to the outstanding mortgage. In deciding whether to grant a mortgage modification to a distressed borrower, HAMP requires lenders to conduct a net present value test, comparing the value to the lender of foreclosing on the borrower to the value of the income stream from a modified mortgage. If house values are well below the outstanding mortgage value, even a reduced income stream from a modified mortgage will be more valuable than the anticipated proceeds from the sale of a foreclosed property. It is quite possible that in the Baltimore neighborhoods where most counseling clients lived that the depressed housing market made lenders much more willing to accept reduced payments from borrowers. In these market conditions, in order to obtain a workout, borrowers may simply need to demonstrate their willingness to retain homeownership in order to obtain a home resolution option. Working with a housing counseling agency presents a clear indication of that desire.

In summary, the clearest difference across agencies was their philosophy toward case management following the initial session. Agency 1 followed an advocacy approach, with the highest number of contacts with borrowers and lenders and the highest rate of home retention. The other four agencies followed a less staff-intensive coaching model, and two had home retention rates in excess of 50 percent. Much of the value of counseling comes from the initial counseling session that is used to formally begin the loss mitigation process with lenders. Having gotten borrowers over this hurdle, and sent a clear signal that the owner wants to retain the home, in many cases the borrower seems to have been able to navigate the loss mitigation process on their own. However, our findings also suggest that less organized or motivated borrowers do drop out of the counseling process after this point if left to their own devices.

6. Conclusion

In the current housing crisis and economic recession, housing counseling is one of the key tools that homeowners in danger of losing their homes can access to help them understand the foreclosure process, learn what options they have for keep the home or sell it, and get in touch with their servicer or lender. The federal government and the states have placed a lot of responsibility on housing counseling agencies to help distressed borrowers navigate the loss-mitigation process and take advantage of the national initiatives aimed at increasing access to loan modifications, such as the federal Home Affordable Modification Program (HAMP).

The State of Maryland recently passed a new law that requires lenders to notify homeowners about possible foreclosure to provide information about loan modification programs such as HAMP. In addition, servicers must give homeowners a 45-day notice before initiating foreclosure proceedings and during that 45-day period the servicer must investigate loss-mitigation options. If the servicer denies the homeowner a loss-mitigation option, it must file a court affidavit stating the reasons and the homeowner has the right to appeal the decision via a court-supervised mediation. With this new law, there should be even more demand for housing counseling expertise, as homeowners will need to understand their rights and thoroughly understand their loss-mitigation options and what they should be able to qualify for before entering the mediation process.

Given the growing emphasis on housing counseling as a response to the foreclosure crisis, it is very important to understand the components of housing counseling that lead to positive outcomes for distressed borrowers. This was what this study set out to do. Given the small sample size of agencies and borrowers involved, and that the Baltimore housing market may not be readily generalized to other places, the findings of this study are exploratory rather than definitive. Nonetheless, we learned several important things about foreclosure counseling in Baltimore that may be relevant in a broader context.

First, the approach to foreclosure counseling does not vary substantially from agency to agency. Most agencies have a similar approach to intake and to the first counseling session. We believe that the similarity in approach is largely attributed to the way the National Foreclosure Mitigation Counseling Program reimburses agencies for the services they provide. For all the agencies in the study, NFMC is a very important source of funding for foreclosure counseling, and to some extent all have shaped their programs to meet NFMC's specifications.

Second, where the five agencies vary most is in their approach to ongoing case management, after the first individual counseling session. One of the agencies does much more proactive follow-up than the others, resulting, on average, in more interactions between the counselor and the client and the counselor and the servicer over the counseling period. This agency also follows an advocacy model, in which the counselor works on the borrower's behalf and the borrower has less responsibility for following up with the servicer on his or her own. The other four agencies follow a coaching model, in which the counselor helps the borrower make initial contact with the servicer's loss-mitigation department and helps the borrower submit materials for a loss mitigation reviews but encourages or requires the borrower to follow up with the servicer and counselor during the review period. The

agencies that follow the coaching model generally do not proactively follow up with borrowers other than to gather information on outcomes for the purposes of NFMC reporting.

Third, the structure of NFMC reimbursement for counseling services implicitly encourages agencies to adopt a coaching model. NFMC does not provide funding for services beyond what is generally provided in the first individual counseling session. Any efforts provided by counseling agencies after this first session are essentially unfunded by NFMC and so must be covered by other sources of funding.

Fourth, the advocacy approach, as exemplified by Agency 1 in the study, resulted in the highest percentage of borrowers who retained homeownership, with 90 percent of borrowers obtaining a home retention workout of one type or another, and had one of the lowest rates of borrowers dropping out (10 percent). Furthermore, our review of borrower case notes suggests that the advocacy approach may be particularly effective for the least organized and motivated clients, because it puts less responsibility on the borrower to stay on top of his or her case.

Any discussion of best practices in foreclosure counseling methods must recognize the major resource constraints under which most housing counseling agencies are operating. The advocacy approach clearly requires more staff time, as counselors spend more time interacting with borrowers and their servicers. It also may require more staff expertise in order to be most effective, as having counselors spend more time negotiating with servicers only makes sense if the counselor has enough knowledge of the calculations a servicer makes in reviewing a case for loss-mitigation to be effective in challenging a disadvantageous decision. The downside to not following an advocacy approach is that more borrowers—particularly those borrowers who are least organized or motivated—are likely to drop out of counseling before a resolution is achieved and some may end up with a less advantageous resolution.

Agencies that are concerned that the least organized and motivated borrowers may have a lower chance of success than other borrowers seeking counseling might consider using intake or the first counseling session as a way to gauge the borrower's level of organization and motivation. Borrowers who seem least capable of managing the process of following up with the servicer and counselor on their own could be flagged for additional support by the counselor. This may happen naturally for some counselors and some borrowers, but a more systematic approach may be warranted to ensure that all borrowers who need it have access to the additional support.

At the same time, agencies might make an informed decision to focus their resources on serving larger numbers of clients through a less resource-intensive coaching model. There are many clients who are relatively organized and motivated but nonetheless need the counselor's help to achieve a positive outcome, either because they do not understand the loss-mitigation process or cannot get a response from their servicer. We observed many cases where efforts by the counselor to start the loss-mitigation process with the servicer at the initial session were sufficient to put the borrower on a path toward a resolution. In such cases, proactive case management by the counselor was not needed. However, the findings of this study highlight that under a coaching model it is easy for borrowers to drop out at various stages of the process. While the results of this study are not sufficiently robust to suggest that agencies should adopt an advocacy approach, agencies and policymakers should be aware of the tradeoffs involved in pursuing or supporting the current model that focuses on getting

the borrower's case into loss-mitigation review and then relies heavily on the borrower to see their case through to a resolution.

As noted at the outset, given the scale of this study, it is best characterized as exploratory in nature. Given the emphasis by policy makers on foreclosure counseling as a response to the mortgage crisis, there is a clear need for further research on this topic. While a large-scale study employing an experimental design is needed to truly demonstrate the impacts of foreclosure counseling, smaller scale and more qualitative research would actually be more likely to shed light on which approaches to foreclosure counseling appear to be most effective.

There are several ways in which the present study could be extended to enhance our understanding of the effectiveness of foreclosure counseling. For example, the same methodology could be used to examine variations in counseling approaches and outcomes in a different market context. This would illuminate ways in which the findings of this study may be unique to the Baltimore market area due to housing market conditions, state policies to support and promote counseling, or the support systems and information sharing across these five agencies. Another useful extension of this study would be to gather information directly from borrowers and lenders to factor in their perspectives on the housing counselors role in trying to resolve the delinquency. While not explored in the present study, there is a variety of evidence that differences across lenders in how their loss mitigation functions are organized and implemented have a significant impact on borrower outcomes. Including more explicit emphasis on lender approaches to loss mitigation would also shed light on the effectiveness of counseling in different lender contexts.

These types of extensions could also help inform a more statistically rigorous investigation of the effectiveness of different approaches to counseling. Such a study would have to cover a broad swath of counseling agencies to include both a diversity of approaches to counseling as well as a diversity of market circumstances. The study would also require good information on borrower circumstances and outcomes. The data collected through the NFMC could be the basis for such a study, but it would have to be combined with additional qualitative work to document the specific approaches used by individual agencies in providing counseling. The present study offers a good starting point for this work, as it helps to define the elements of foreclosure counseling and the points in the counseling process at which agencies are likely to diverge in their approach.