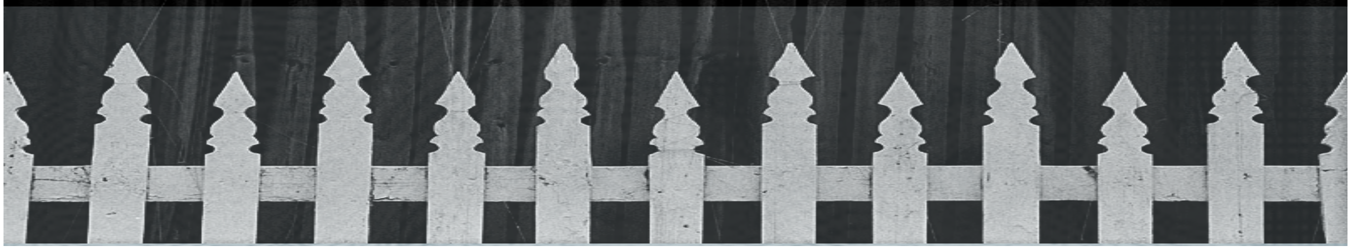

Understanding Responses to the Threat of Foreclosure Among Low-Income Homeowners

Executive Summary

Desirèe Fields, Kimberly Libman,
Susan Saegert, PhD, Heléne Clark, PhD, & Fran Justa, PhD

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INTRODUCTION

Foreclosure rates have risen steadily over the course of a generation, and the trend appears to be accelerating.[1] In 2006 foreclosure was started on nearly 800,000 homes.[2] Not only are homeowners losing their homes and suffering financial and emotional damage, but whole neighborhoods must bear the blight and crime often accompanying foreclosed properties. Neighborhoods and cities can experience weak or collapsed housing markets and damage to their reputations. If foreclosures continue to increase, significant expenses may be incurred by the mortgage industry, including investors, insurers of securities, and loan servicers, as well as local governments.[3]

2004-2005 Survey of Homeowners Assisted by NeighborWorks Organizations

In 2004-2005 the Housing Environments Research Group (HERG) at the CUNY Graduate Center surveyed more than 750 clients of nonprofit organizations affiliated with the NeighborWorks America Campaign for Homeownership.[4] These groups are referred to in this report as NeighborWorks Organizations (NWOs).[5]

The survey found that low- and moderate-income homeowners who received pre-purchase homeownership education benefited in many ways:

- Overall, NWO buyers have statistically significantly lower interest rates (6.15% average) compared to non-NWO buyers (6.57% average)
- Clients who keep in touch with their NWOs take out fewer payday loans and owe less on household appliances
- They are also less likely to report taking out personal and home equity loans and taking on credit card debt
- Post-purchase clients who stay in touch with their NWO report lower interest rates
- Clients who use more post purchase services have higher savings rates
- Clients who contact NWOs when they need help avoid being late on their mortgage payments
- Clients who contact NWOs when they need help are more satisfied with homeownership from a financial standpoint and report fewer challenges in maintaining their homes.

However, NWO clients also experienced financial challenges after their purchase of a home:

- While 22% of homeowners had no difficulties making ends meet each month, 10% had serious problems and did not have enough money to make ends meet. The majority--65%--of those surveyed reported that they had barely or just enough money at the end of the month.
- 20% deferred important repairs because of lack of money
- 20% had been 30 days late on mortgage payments

The survey also revealed that almost one-third of homeowners who encountered financial trouble after buying their homes did not contact their counseling agencies for help.

Help Seeking

While seeking early help for mortgage delinquency may be a critical step for preventing foreclosures it is believed that many homeowners do not do this. A Roper survey for Freddie Mac found that 31% of the over 1,000 delinquent homeowners surveyed had not called their lender when they were in trouble. Many of these delinquent borrowers did not feel that they needed to contact the lender for help.[6] In both the Roper and HERG surveys, respondents tended not to be aware of what kinds of options were available if they did seek help.

Research Questions

This focus group study was designed to find out:

- How do homeowners make decisions about getting help for mortgage delinquency?
- How do homeowners define and understand financial trouble?
- How do they go into delinquency?
- What do they do to handle their problems? And, what are the results of these strategies?
- What strategies do nonprofit organizations and professionals use to assist homeowners at risk of foreclosure? And, which strategies are more and less successful?

Focus Groups And Their Analysis

A focus group is a conversation used to gain understanding of groups of people's emotions, stories, and diversity in thinking about a topic. The group format creates situations that can provide broader insight into a topic than survey or interview methodologies.

Two researchers moderated each group, which lasted from one to two hours. All focus groups were audio-recorded, and participants were assured that identifying information would not be connected to any quotes used in publication. All participants in this study received a meal and a $100 incentive. In total 14 focus groups and 2 interviews were conducted with 127 participants in five US locations. Unique question protocols were developed for each of the three types of focus group that were conducted at each site. Using screening interviews participants were grouped as:

- **Nonprofit foreclosure prevention clients**: those who contacted a nonprofit counseling organization for foreclosure intervention assistance
- **Homeowners who did not contact a nonprofit**: those who did not contact a nonprofit counseling organization (but may have sought assistance in other places)
- **Professionals**: staff at nonprofit counseling organizations and community development corporations, municipalities, and others who come into contact with delinquent homeowners

The focus groups were analyzed using a combination of methods to ensure thoroughness and the reliability of findings. These included on site reflection, debriefing with staff, listening to recordings, coding, and creating matrices of data. All focus groups and interviews were professionally transcribed. In total the transcripts accounted for over 800 pages of data.

Focus Group Sites

- **New York, NY:** a large, ethnically and racially diverse, urban, and extremely high-priced market with increasing reports of predatory lending and a new citywide initiative (PACE—Preserving Assets and Community Equity) to combat it.
- **Hamilton, OH**: Ohio has seen extremely high rates of foreclosure in recent years, with foreclosures in Butler County (where Hamilton is located) more than tripling in the past decade.
- **St. Louis, MO:** St. Louis homeowners have a very low median income compared with the national average, and survey data found that homeowners working with nonprofit there report very high fear of foreclosure coupled with a high incidence of making late mortgage payments. In addition it is a "Don't Borrow Trouble" (a Freddie Mac predatory lending awareness campaign) site.
- **Waco, TX**: NeighborWorks Waco, a nonprofit organization, recently began offering "Sustain the Gain" post-purchase education and foreclosure prevention education in response to the high rates of fear of foreclosure and making late mortgage payments reported by homeowners in the 2004 survey; the area has very high rates of subprime lending and Texas had the 4th highest per capita foreclosure rate in the country in 2005.
- **Duluth, GA**: In addition to a growing number of reports of mortgage fraud and deed theft, Georgia had the highest per capita rate of foreclosure in the country in 2005. Duluth, is home to the Impact! Group, a nonprofit which provides a broad spectrum of housing resources, counseling, and education services.

Site Selection

The sites for the focus groups were selected to represent a complex mix of market, geographic, economic, and demographic factors to yield locally and nationally relevant results about what contributes to mortgage among low- and moderate-income homeowners, and their efforts to avoid foreclosure.

In addition, Neighborhood Housing Services (NHS) of Chicago served as an advisory site based on their pioneering work with the Home Ownership Preservation Initiative[7] (HOPI) and their focus group research with homeowners. We consulted them on recruitment, current issues in the mortgage lending and nonprofit homeownership education community, and our focus group protocols.

Survey

After piloting our protocols a closed-ended questionnaire was added to get detailed information about individual participants' loans that could be difficult to track in a group format. Data from the closed ended questionnaire was entered into SPSS (Statistical Package for the Social Sciences) and used to generate descriptive statistics for our sample.

Participants

All of the homeowners participating in the focus groups expressed being challenged by the demands of homeownership. Most participants reported difficulty with health problems of their own or of a close relative, underemployment and unemployment, or other unsustainable debt in addition to being unable to pay their mortgage at some time. A number of participants (37.9% of questionnaire respondents) had refinanced their mortgage or taken out a home equity line of credit at some point either before or after they began to experience financial difficulties. Among the survey respondents 79% had a fixed rate mortgage and 21% reported having adjustable rate mortgages. The average mortgage interest rate was 7.85% and the median mortgage interest rate was 7%. Many homeowners participating in the focus groups were African-American, with more female than male participants.

Our findings may be biased toward the experiences of these participants and may not generalize beyond those that share similar characteristics. Because all participants voluntarily responded to a newspaper ad or recruitment letter, our sample may also be biased toward delinquent homeowners who are proactive about seeking help for their financial difficulties.

FINDINGS

How do homeowners define and understand financial trouble?

Defining Trouble

Most commonly participants defined financial trouble as *"Robbing Peter to pay Paul"*: not paying one bill in order to pay another. They also noted that when they had more expenses than income, it spelled financial trouble. Yet this experience may not be uncommon in low-income households While some homeowners felt they were in trouble as soon as they knew they were unable to make a mortgage payment, others did not necessarily see missing one mortgage payment as being in trouble. The former group had often experienced economic shocks such as the loss of a job, or personal crises with economic consequences such as divorce or the death of a spouse. The latter were more likely to report ongoing financial strain; these homeowners were more likely to feel that trouble came only when they were unable to double up on their mortgage payment the following month. There was also general agreement among homeowners that notice of foreclosure letters also signaled serious trouble.

"I did everything right and the bottom fell out and no one would help"

Two Understandings Of Delinquency And Default

The homeowners we spoke to seem to experience their predicament in one of two ways: there are those who see the situation as one that they are responsible for, and others who feel they have no control over the situation. Though people from both groups sought help, they differed in how they saw their ability to resolve their mortgage delinquency and avoid going into default and foreclosure.

Many homeowners who expressed a strong sense of personal responsibility for resolving their delinquency also felt that they were responsible for its root causes. For these people, the experience of delinquency and the hardship associated with it opened their eyes to problematic spending habits and poor budgeting. Some were able to re-evaluate and prioritize their spending as a result of their financial trouble. Others admitted that they fell into a predatory loan because they *"tried to do the easy way out…this lady came to me with the silver platter, everything that I wanted was right there"*. This group of homeowners tended to pursue gaining a forbearance, workout, or loan modification agreement with their lenders despite the hardship this may have entailed, because *"if banks give you any opportunity to get ahead you should do whatever you can"*, in order to *"stop the cycle [of debt] somewhere"*. Those who were able to arrange loan repayment plans with their lenders felt these plans were difficult to afford, but they also felt that getting caught up was worth it. One said, *"you just live with no money and work really hard, you just find a way to make the money"*.

The second group felt that they were trapped in delinquency despite doing everything they could to be responsible homeowners. Delinquent homeowners who understand their situation as one over which they have little control stress their lack of options, their frustration and exhaustion with seeking help, and the power imbalance between themselves and the government and financial institutions. These participants often expressed their efforts to be responsible homeowners, and that delinquency *"wasn't my choice"*, that they *"did everything right… and the bottom fell out and no one would help",* and that they felt *"hurt by the system even though I did everything I was supposed to do"*. While these participants also put great effort into seeking help and trying to get caught up on their mortgages, many seemed resigned to the inevitability of overwhelming debt and the possibility of foreclosure, saying *"all I can do is wait and see what happens",* and *"I just live month to month and see how things are going to go"*.

Emotionality

When they are behind on their mortgage payments all homeowners experience a range of intense emotions including depression, anxiety, hopelessness, confusion, fear, and victimization. These are reactions not only to financial strain, but also to the life circumstances that gave rise to delinquency, as well as the process of trying to access help. Such emotions can also perpetuate financial problems by interfering with clear thinking and logical decision making. Of making financial decisions under stress, one participant said, *"We're stressed; we're not looking at it, we're just looking for a way out, we're just looking for something to say you're current, to stop the late charges, to stop the little sheets of paper"*.

For a number of focus group participants, mortgage delinquency had even more serious consequences, leading to depression. Several commented on the challenge of keeping up with everyday activities like going to work and taking care of their families. For example, *"You know I couldn't perform…normal functions…going to work was the only thing I could do on a daily basis because I couldn't deal with anything else…I didn't know what I was going to do. I felt like the world was closing in on me"*.

Emotional reactions to delinquency also take their toll on families. Because of the intense stress they were experiencing participants often lost their tempers at their children or spouse, which sometimes led to marital problems and even divorce. Women and men expressed different facets of how emotional reactions related to financial difficulty affected their family relationships. Some women expressed regret over not being able to provide attention and care for their children. Men in this position often felt that they were failing as husbands and fathers. One man stated *"There's nothing worse than a man feeling like he can't provide for his family…that was the biggest thing I had to struggle with"*.

How do homeowners go into delinquency?

Underestimating The Costs Of Ownership

Many focus group participants became delinquent on their mortgages because they did not have enough savings and financial flexibility to manage the periodic spikes in housing costs associated with homeownership, e.g. changes in property taxes or the price of insurance. Homeowners reported that the equity in their homes was often their only financial reserve. Thus when they need to make home repairs and have no savings they can only protect their investment by reducing their home equity through refinancing. In addition to becoming responsible for home repairs homeowners must also be able to pay for homeowner's insurance and property taxes. Homeowners who faced delinquency and foreclosure did not fully understand these additional fiduciary responsibilities and sometimes did not understand the importance of paying the mortgage before other bills. For example, "*I said the insurance comes first because if the house is burning up, it's not covered. So, I paid my insurance, I paid all my other bills, but I just could not make that mortgage payment.*" In addition seasonal fluctuations in utility bills contributed to putting the cost of ownership above homeowners' budgets. When it is already a stretch for low- and moderate-income families to purchase a home and regularly make their mortgage payments, keeping up with these additional expenses can make homeownership challenging to maintain.

Cascade Of Trouble

For delinquent homeowners financial trouble is rarely an isolated event—among the focus group participants financial difficulties were tied into bundles of problems in their lives. Among the homeowners that we spoke to, ownership is maintained within a delicately balanced home economy of time and money earned and spent. This balance is carefully sustained from paycheck to paycheck. While most focus group participants were highly aware of their expenses and income, living paycheck to paycheck may interfere with the kind of long-term financial planning that provides the ability to withstand sudden demands for money or time. These demands came from such regular life events as having a child, losing a parent, caring for an ill friend, having car trouble, or losing a wallet that had a few hundred dollars of cash in it.

Many lower-income people work in industries that are susceptible to economic or seasonal downswings, e.g. retail, manufacturing jobs, or construction. This context increases peoples' vulnerability to financial trouble because it means that a household's economic balance can be upset by regular life events like car repairs, illness, or a new addition to the family. Even those who had gotten current on their mortgages indicated that they still felt financially vulnerable, stating *"We're still struggling financially because his job still lays him off and on."*

The penalties associated with falling behind on debt contribute to the snowballing effects of financial trouble. Homeowners reported that late fees and damaged credit scores associated with mortgage delinquency led to higher interest rates on their credit cards. Collectively, these payment increases lead to more difficulty making minimum payments, avoiding further penalties, and whittling down the principal owed. Among homeowners with commercial properties (this is more common in urban markets such as New York City), adjustable rate mortgages, and sub-prime loans, interest rate increases associated with missed or late payments can be dramatic- *"Because we've been late with the mortgages, our interest rate has gone from 6.35 to 24 percent!"* When homeowners have very high interest rate mortgages they may find hope in the prospects of refinancing for a lower rate and the possibility of consolidating their debt. However, credit damaged by late or missed payments can be a barrier to these hopes. Efforts to refinance and consolidate debt can make matters worse, especially when people turn to predatory lenders or payday loans for help.

What do homeowners do to handle their financial problems? How do these strategies turn out?

Two Approaches To Help Seeking

Homeowners' searching for solutions to the problem of delinquency had a two-pronged focus. Participants described attempting to deal with the source of the crises, for example by taking on extra work, reevaluating spending habits, retraining for a changed job market, recovering from ill health, or simply taking care of an acute crises such as death or divorce. At the same time, they sought help from their lenders, counseling agencies, and social welfare agencies in order to avoid mortgage foreclosure and manage debt.

Catching up

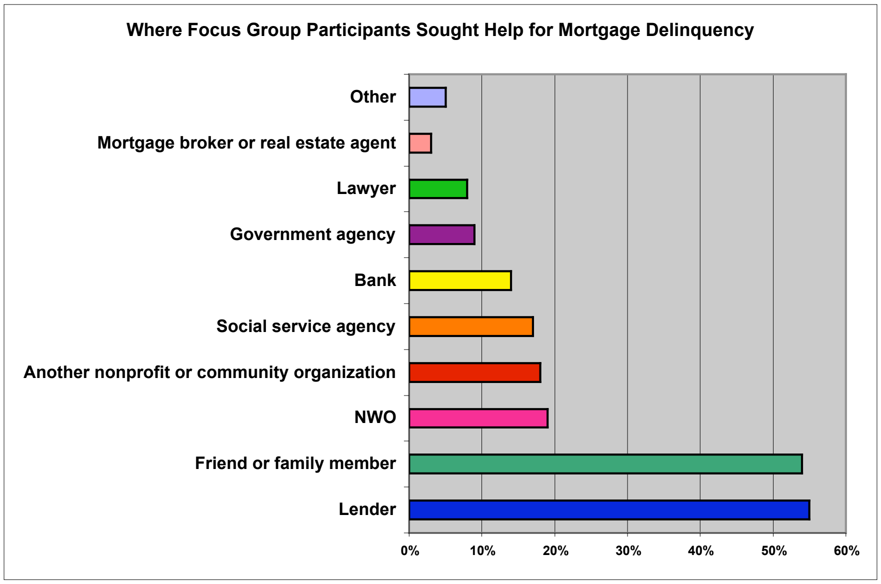
Homeowners employ a number of strategies to catch up on their mortgage payments, over and above their help seeking efforts. Bringing in additional income through extra work and adhering to a strict budget were effective for only some homeowners. For others the stress of taking on additional work seemed to outweigh its rewards. For example, *"I'm doing a part time job right now…and it's stressing the heck out of me. I mean I'm having a backache, I'm having headaches, and for me, I'm saying to myself, that little $65 dollars extra a week is really stressing me out"*. Homeowners also turn to borrowing money from family and friends. A small portion of participants withdrew funds from their 401K savings to make mortgage payments. Others looked to the financial community to get caught up via payday loans, refinancing, and home equity loans. Many also applied for social welfare benefits such as food stamps so they could allocate a greater portion of their income toward their mortgages.

Help Seeking Fatigue

Some homeowners sought help not just from one, but many sources, often until they had exhausted themselves and the resources available to them. We use the term "help seeking fatigue" to refer to a loss of motivation to contact nonprofit counseling organizations or other possible help providers who can intervene against foreclosure. Delinquent homeowners with help-seeking fatigue usually encounter this condition after repeated efforts to secure assistance have failed, or had inadequate results, or created additional emotional strain and burden. Homeowners experiencing this loss of motivation said the following:

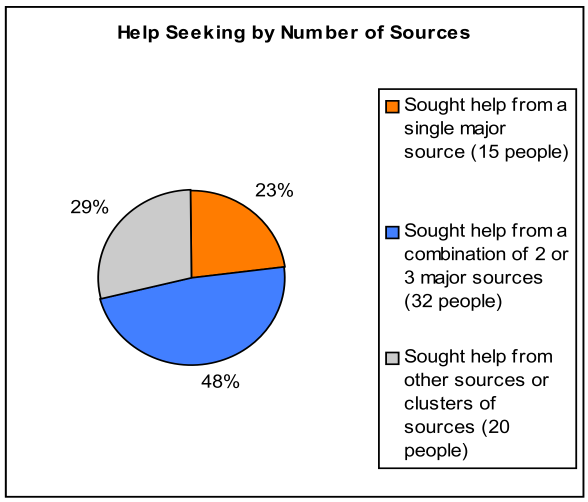
- *"No matter where you go you think you're going to the right place, and then it turns out to be the wrong place"*

- *"You just want to give up… and you don't feel like asking anybody anymore to help"*
- *"I finally gave up on trying to contact (a nonprofit counselor) and then decided to myself that all that was probably a scam"*



Focus group participants sought help from a range of sources including their lender, friends and family, nonprofit organizations, social service agencies, their own banks, and the government. The percentages add up to more than 100% because a number of respondents sought help from more than one source.

Almost half of the sample sought help from multiple sources (the most popular combination was lender with friend or family member) while around a quarter of the group sought help from only one source (most popular was friend or family member or lender); a third of the sample sought help from other sources or clusters of sources



Risks Of Help Seeking

Seeking help for mortgage delinquency brought some homeowners into contact with predators who claimed they would help those at risk of foreclosure to stay in their homes. Despite these claims, such practices often resulted in homeowners losing their homes to fraud or foreclosure, or in equity stripping. One homeowner said their lender referred them to a foreclosure rescue organization and later learned that the group was trying to push people into foreclosure so that they could then purchase homes at low cost and resell the properties for profit.

> *"I called my mortgage company about two months later. These guys* [the group that the lender referred her to] *are not helping me…loss mitigation tells me, 'well let me tell you what the real deal is with that company. Their strategy is to get you to fall behind, so that you can fall into foreclosure, so that they can purchase your home, and you pay them.' I was like, and this is who you referred me to? And you're mad at me? Now I'm two months more behind, and you're mad at me. 'There's nothing we can do, but we just found out.' "*

Why do some delinquent homeowners make calls for help and others do not?

"Calling for Help" Only Helps When Assistance is Forthcoming

Based on prior research[8] we started this project assuming many people do not seek help for mortgage delinquency. However during recruitment and screening interviews almost everyone reported seeking some kind of help. This trend was echoed during the focus groups as well. The homeowners we spoke with sought help not just from one, but from many sources, often until they had exhausted themselves and the resources available to them. Thus in addition to finding ways to prompt delinquent homeowners to call for help, those in a position to provide assistance must ensure that those in need know who to call and when, and offer timely, useful assistance. Unfortunately for many of the delinquent homeowners we spoke with, these conditions did not exist. The closed-ended questionnaire results indicate that lenders, and friends or family members were more popular sources of assistance on their own and in combination than nonprofits were alone or in combination with one's lender or friends or family. These results indicate that nonprofits may face particular challenges in being perceived as a source of help for mortgage delinquency and foreclosure avoidance. It is of course possible that since these homeowners were willing to speak to us they may not be the very hardest to reach.

Experiences With The "Lender"

Many homeowners reported contacting their lender as their first route of seeking help. However the term "lender" seemed to cover a network of services and multiple departments within financial institutions, many of which did not see their role as offering foreclosure prevention assistance. The combination of representatives of financial institutions who focused on debt collection, the confusion among borrowers about who to contact after the initial loan was closed, and the stress delinquent borrowers were under often made communication very problematic. The result was that homeowners often failed to obtain timely, accurate information or assistance, and felt rudely treated.

Homeowners who contacted their lenders the moment they knew they would not be able to make their payment expected that the lender would look favorably upon such efforts as a sign of their commitment to pay, and offer a forbearance agreement—*"put the payments at the back"* or a temporarily reduced payment plan. When the representative of the lender told them that there was nothing to be done until they were three months behind in payments, the people we spoke to took this to mean that they would be able to resolve the situation with their lender after three months' time. In the intervening months, a number of people used any funds they might have been able to put toward their mortgage on other pressing expenses.

Homeowners who did not contact their lenders believed that they could catch up with their payments. Because the experience of living paycheck to paycheck and "robbing Peter to pay Paul" was common among focus group participants, those who did not experience a severe income shock, e.g. job loss, did not believe that they were in financial trouble when they had missed a payment. Those who believed they could catch up understood their delinquency as a short term or temporary problem and made statements such as, *"I have this mortgage for 30 years. Where am I going?"*. This group believed that missing just one payment would be okay, and that they would be able to double up the next time. The trouble comes, they said, when you're planning to double up and then another crisis happens, e.g. "*Then the engine wore out on my truck",* that prevents you from paying as you had intended—then *"It's panic time"*.

Other Sources Of Help

Some delinquent homeowners seek help from the legal community. A number of these people declared Chapter 13 bankruptcy believing that it would help them to avoid foreclosure and keep their homes. The legal representation that low-income homeowners have access to is often of poor quality because they cannot afford to pay very much for these services. For example, we spoke to one man who turned to a lawyer for assistance who encouraged him to file for chapter 13 bankruptcy—but the lawyer had to return to court three times to amend paperwork, and now this man's credit record reflects three separate bankruptcy filings.

The experience of seeking social welfare can be demoralizing for homeowners because while most participants were living through financial struggle, many times their income and assets exceed eligibility requirements for benefit programs. There are few sources of aid for mid-level needs: *"I'm still trying to find some help…If you don't have any kids there's no help."* Homeowners who are struggling to meet their mortgage payments, but who exceed the income limits for public aid programs, have reported rude and insensitive treatment when they applied for assistance. For example, a single mother whose daughter had to be driven to a hospital regularly for medical care had the following experience: *"She looked me in the face and she said 'well, if you'd get rid of the car, you could get assistance.' I said, 'ma'am, this car is my life line!'"*

What do nonprofit organizations and foreclosure intervention counselors do to assist homeowners with mortgage delinquency? How do these strategies turn out?

Experiences With Nonprofits

Nonprofit homeownership education and counseling organizations employ a number of strategies in response to the threat that growing rates of foreclosure pose to gains in low-income homeownership. These include:

- Preventive post-purchase education
- Financial counseling
- Third party communication with the lender
- Limited financial assistance
- Post-foreclosure housing assistance

Nonprofit staff: "These people have champagne tastes and they're living on a beer budget"

Homeowner: "I don't got champagne tastes with beer money"

We found that for homeowners the relationship with their lender is primary, even if they received pre-purchase education from a counseling agency. Further, there is little awareness about the post-purchase services or foreclosure intervention assistance that are available from nonprofits, even among those who received pre-purchase counseling and education. Homeowners stated that personalized outreach from such nonprofits would encourage them to seek help when they were having financial trouble. Many homeowners did not learn that third-party assistance was available until they received a letter from their lender when they went into default informing them of resources such as HUD-approved counseling. However, by the time a delinquent homeowner reached an NWO or similar nonprofit they had already spent a good deal of time searching for help in other places. This can compromise the ability of nonprofit professionals to help them effectively because their financial situation may have progressed to the point of being irreparable or homeownership being unsustainable. Furthermore homeowners may have already begun to experience help-seeking fatigue. In that case, it may be harder to help because they have already expended their emotional and financial resources. Many professionals reported that they come into contact with delinquent homeowners via referrals from lenders at the time of default, suggesting that lenders exercise a good deal of influence over the sources of third-party assistance that homeowners seek.

Homeowners contacting nonprofit organizations for foreclosure intervention assistance expect that such organizations will be able to provide them with emergency funds to get caught up on their payments. Unfortunately, very few organizations offer such assistance. Those that do usually offer one-time assistance only, and only to existing clients. It is the overwhelming sentiment of nonprofit professionals we spoke with that it is unrealistic for homeowners to expect emergency funds. However, homeowners suggested that one way to balance this tension would be for organizations to require education and counseling in order to access emergency funds such as, *"special classes and after you take so many we'll help you with this or with that; so it works for them and it works for us"*.

Most non-profits offer a combination of budgeting and financial management counseling and the use of a third party to negotiate an affordable repayment plan with the lender on behalf of the borrower. While both services were sometimes helpful, different homeowners expressed mixed opinions about both approaches. Budgeting and financial literacy were widely recognized as important skills. However, clients and counselors sometimes differed in their evaluation of what constituted necessary expenses, and some clients who were already on very stringent budgets were offended by the assumption of counselors that they were profligate spenders. Some homeowners appreciated the ability of counselors to work out different arrangements with lenders than they had been able to achieve themselves. Others were frustrated that counselors could achieve better results by doing exactly the same things that the delinquent borrower had tried.

Barriers To Assistance

Nonprofit organizations that provide financial education also find that they are up against the aggressive marketing of loan products, the infiltration of low-income communities by predatory lenders, and messages from the media. Professionals lament the lack of funding to reach out to homeowners and would-be homeowners with advertising and other outreach strategies: *"They hear 'Buy a house, buy a house, buy a house', and we need to hear more 'watch out for predatory lending'. We need to…put it out there"*. In the eyes of professionals, the efficacy of financial education is compromised by the tide of messages that their communities receive about homeownership and loan products, and the lack of sufficient funding to support outreach, staffing, and programming to compete with such messages.

Conclusions

These findings call for a reframing of the helpseeking and foreclosure issue. In addition to focusing research and intervention efforts on how to encourage delinquent homeowners to seek help, efforts should acknowledge that most people do seek help but not always in the most effective ways. Future research, nonprofit programming, and public policy developments aimed at foreclosure prevention should seek to develop concrete practices that improve communication among stakeholders and assist delinquent homeowners both in locating effective help for addressing their financial struggles as well as avoiding the dangers of predatory lenders and other potentially dangerous help providers. Research, programming, and policy must also look broadly to develop strategies that prevent the circumstances that lead to the mortgage delinquency and foreclosure.

As the findings illustrate, there are many obstacles to resolving issues of delinquency, default, and foreclosure among low-income homeowners. More work is needed to improve institutional practices and communication among all stakeholders to accomplish clearer understandings of the issues and more efficient and effective resolution of the risk of foreclosure. We end this report by outlining some areas in which careful thought and innovation would be especially important.

RECOMMENDATIONS

Lenders

1. Develop strategies **to help homeowners who make early contact** before they have actually missed a payment.
2. Carefully **consider the appropriateness of loan products for low-income borrowers**. Lending should be extended not only aimed at getting households into ownership, but also with maintaining it.
3. **Clarify partial payment policies.** When homeowners sent in partial payments and they were returned this money went toward other expenses, thus exacerbating the problem of delinquency.
4. **Provide compassionate and individualized foreclosure avoidance strategies** when working with delinquent homeowners. Because of their stressful financial situation homeowners experiencing financial difficulty may require more effort from lenders in setting up a cooperative framework for addressing the problem.
5. **Provide referrals** to nonprofit counseling and education organizations.
6. **Recalculate income formulas** to include predictable repair costs and establish escrow funds for these needs in addition to property taxes and insurance

Nonprofit Counseling Agencies

1. **Provide information and resources at closing "for a rainy day"** to encourage homeowners to seek help should they encounter financial difficulty. This information should also include warning about predatory lenders and fraudulent help providers.
2. **Provide opportunities to educate the whole family.** Bringing children into budgeting discussions, teaching them about saving, and developing other ways to instill financial literacy and responsibility early on is an important way to help low-income households maintain homeownership over generations.
3. **Institute evening and weekend hours.** For many homeowners, the threat of losing income due to taking time off work to visit nonprofits and social service agencies was a barrier to seeking help.

4. **Consider how to provide emergency funds with built-in accountability**. Homeowners suggested that nonprofits could pair access to funds with requirements for education and counseling while others thought making small loans of emergency funds might be helpful. Alternatively, counseling agencies might develop matching savings programs where funds are held in escrow in case of emergency.

5. **Consider new ways of communicating the full costs of homeownership.** Prospective and current homeowners need a more realistic and nuanced understanding of their ability to achieve and sustain homeownership. Some of the gaps in knowledge we encountered were how to calculate monthly costs that include accruing reserve savings for unexpected income shocks and costly repairs in addition to the cost of the mortgage payment, how escrow, insurance, and mortgage payments are related, and buying more house than one can afford.

Government

1. **Investigate predatory lenders and regulate lending practices so that more responsibility is put on lenders to provide financial products that are appropriate for borrowers given their economic circumstances**. Over and over again, focus group participants requested that the government pass laws against such unethical lending practices, and that predatory lenders be subject to punishment.

2. **Certify organizations providing foreclosure prevention services.** By regulating help providers in this way homeowners may be more likely to seek effective assistance from trusted sources earlier in their delinquency.

3. **Develop a formalized pre-foreclosure step aimed at maintaining homeownership among those at risk of foreclosure.** This could require credit and financial counseling for delinquent homeowners similar to the financial counseling now required before filing for bankruptcy.

4. **Expand the aid and assistance available through social welfare agencies.** Focus group participants, while struggling financially, often exceed maximum income levels for social service programs. Similarly people without children and those who are unemployed stated that they have few options when it comes to aid programs.

Cross-Cutting

Some of our recommendations cut across the distinction between lenders and nonprofit counseling agencies. Some apply to both of these entities while others call for their collaboration in order to prevent foreclosure and better serve financially struggling homeowners.

1. Foreclosure prevention counselors and lenders' loss mitigation staff should **reflect the communities they serve**. Homeowners valued the insights of staff who are successful homeowners, have experienced mortgage delinquency, or been victimized by predatory lending themselves.

2. Lenders and nonprofit counseling organizations should **work together to set up referral networks**. Collaborations between lenders, counseling and social welfare agencies offer an opportunity to get homeowners to the assistance they need in a timely fashion, while minimizing the risk of worsening the sustainability of homeownership and without duplicating efforts.

3. Both lenders and nonprofit counseling organizations should **address the common perception that lenders want to foreclose because they will profit from taking a home.**

4. Both lenders and nonprofits should make every effort to **provide clear, accurate, and complete information to homeowners about the options available to them** should they encounter financial difficulty.

ACKNOWLEDGMENTS

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[1] See for example P.J. Elmer and S. Seelig, "The Rising Long-term Trend of Single-family Mortgage Foreclosure Rates", *FDIC working paper 98-2* (1998); Neighborhood Housing Services of Chicago, "Preserving Homeownership: Community Development Implications of the New Mortgage Market", *Neighborhood Reinvestment Corporation* (2004); E. Schloemer, W. Li, K.Ernst & K.Keest, "Losing Ground: Foreclosures in the Subprime Market and their Cost to Homeowners", *Center for Responsible Lending* (2006).

[2] Mortgage Banker's Association of America 2006 National Delinquency Survey

[3] Dan Immmergluck & Geoff Smith, "The Impact of Single-family Mortgage Foreclosures on Neighborhood Crime", *Housing Studies* 21(**6**) (November 2006): 851; Neighborhood Housing Services of Chicago, "Preserving Homeownership: Community Development Implications of the New Mortgage Market", *Neighborhood Reinvestment Corporation* (2004); William C. Apgar & Mark Duda, "Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom", *Homeownership Preservation Foundation* (2005).

[4] NeighborWorks America Campaign for Homeownership is a nationwide initiative started in 1993 and is designed to "bring families of modest means into the economic mainstream" by helping them become homeowners. http://www.nw.org/network/neighborworksprogs/ownership/default.asp accessed June 28, 2007.

[5] NeighborWorks America Campaign for Homeownership Members: http://www.nw.org/network/nwdata/CampaignHomeOwnership.asp accessed June 28, 2007.

[6]Freddie Mac with Roper Public Affairs- GFK, "Foreclosure Avoidance Research", *Freddie Mac* (2005).

[7] HOPI is an initiative launched in 2003 by NHS of Chicago and partners such as the city of Chicago, lenders, and nonprofit providers of foreclosure prevention counseling to combat the sudden rise of foreclosures in Chicago.

[8] Freddie Mac with Roper Public Affairs- GFK, "Foreclosure Avoidance Research", *Freddie Mac* (2005).