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Has Foreclosure Counseling Helped Troubled Homeowners?

Evidence from the Evaluation of the National Foreclosure Mitigation Counseling Program

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The bursting of the housing market bubble that began in 2006 left historic numbers of home foreclosures in its wake. The problem of large numbers of foreclosures has not subsided: as of October 2011, about 4 million home mortgages were either in foreclosure or more than 90 days delinquent, with foreclosure inventories at historic highs (LPS Applied Analytics 2011). As a result, many homeowners continue to be at risk of losing their homes.

Since 2007 the federal government has implemented several initiatives to reduce or mitigate the impacts of foreclosures; the most recent are the Making Home Affordable (MHA) Program and the Neighborhood Stabilization Program (NSP). MHA consists of two major initiatives: the Home Affordable Refinancing Program (HARP), under which homeowners can refinance their mortgages with a maximum loan-to-value ratio of 125 percent, and the Home Affordable Modification Program (HAMP), in which homeowners who are at imminent risk of foreclosure can apply for loan modifications that reduce their monthly payments to 31 percent of their monthly income (Immergluck 2011).

The three rounds of the NSP provided funding for local governments to acquire and rehabilitate abandoned or foreclosed homes, develop and offer subsidies to purchasers of foreclosed homes, develop and implement landbanks, demolish properties, and redevelop demolished or vacant properties (Immergluck 2011).

The National Foreclosure Mitigation Counseling (NFMC) program represents a third, perhaps lesser-known major federal response to the foreclosure crisis. First funded in early 2008, the NFMC program is a special federal appropriation, administered by NeighborWorks® America (NeighborWorks), designed to support a rapid expansion of foreclosure intervention counseling. The program seeks to help struggling homeowners by providing them with much-needed foreclosure prevention and loss mitigation counseling. Through five separate funding rounds as of 2011, NeighborWorks distributes program dollars to competitively selected Grantee organizations, which in turn provide counseling services to troubled homeowners, either directly or through Subgrantee entities.

Congress required an evaluation of the NFMC program, and NeighborWorks engaged the Urban Institute to evaluate the first two rounds, which included homeowners who received counseling assistance in 2008 and 2009. The Urban Institute recently issued a final report detailing the results of its three-year evaluation (Mayer et al. 2011).

This research brief summarizes the key findings of the NFMC evaluation final report. The evaluation looked comprehensively at the NFMC program and its effects on both troubled homeowners and the broader foreclosure crisis. According to this evaluation, the program had a number of positive impacts:

- *Building national capacity for foreclosure mitigation counseling.* The NFMC program increased the funding available to counseling organizations, allowing them to hire more counselors and serve more clients. Through training, networking, and investment in improved procedures and systems, counseling organizations were also able to increase their efficiency.
- *Improving outcomes for troubled homeowners.* Counseling provided through the NFMC program yielded measurable and substantial improvements in client outcomes. These included improving the quality of mortgage modifications and increasing the frequency and sustainability of cures of delinquencies and foreclosures.
- *Reducing the number of completed foreclosures.* The NFMC program decreased the number of homeowners who lost their homes through a foreclosure-related sale. By reducing total foreclosures, the program generated social cost savings well above its expenditures.
- *Identifying challenges and best practices for foreclosure counselors.* As the foreclosure crisis continues to play out, understanding the challenges that counselors and their clients face will be crucial to achieving better outcomes. NFMC-funded counseling organizations identified lack of servicer responsiveness and client financial difficulties as their two biggest challenges. Effective counseling organizations have developed several best practices to address these and other obstacles.

Building National Capacity for Foreclosure Mitigation Counseling

The NFMC program was designed to increase the capacity of housing counseling organizations to provide foreclosure prevention counseling services. Before the national housing crisis, foreclosure counseling composed a small share of the services provided by these organizations, which were more typically focused on counseling for first-time homebuyers, renters, or homeowners seeking reverse mortgages (Herbert, Turnham, and Rodger 2008). The rapid rise in foreclosures and mortgage delinquencies meant counseling organizations had to shift priorities and ramp up rapidly their capacity and capability to provide more foreclosure mitigation counseling.

The NFMC program helped increase the nation's capacity to assist troubled homeowners in several ways. First, and perhaps most important, by providing more funds to counseling organizations, the program increased national capacity for foreclosure counseling services. The additional funding, which included both counseling and program support dollars, allowed Grantees and Subgrantees to expand their coverage areas, hire more counselors, access training opportunities, and invest in infrastructure and systems to improve performance.

According to responses from two web-based surveys of round 1 and round 2 Grantees and Subgrantees, as well as case study interviews with selected NFMC-funded organizations, the NFMC program allowed recipients to serve more clients and provide services in larger geographic areas. Round 1 Grantees and Subgrantees reported that the median number of clients served in 2008 was 233, nearly three times the median number of clients respondents served in 2007. Because some organizations served a relatively large number of clients, the mean number served by respondents in 2008 (853) was about twice as great as the mean number served in 2007. Some of this increase in volume resulted from respondents increasing their coverage area: 51 percent of respondents indicated that they expanded their coverage areas with program funds.

The large growth in clients served between 2007 and 2008 was accomplished by a relatively small increase in the number of counselors, suggesting that organizations served clients more efficiently in the face of growing demand for foreclosure assistance. The median counseling organization employed one full-time foreclosure prevention counselor in 2007; by the end of 2008, it had two such counselors. Although this is a 100 percent increase, it still means that at least half the survey respondents had no more than two full-time foreclosure counselors at the end of 2008. Organizations may offer foreclosure prevention counseling through staff who provide other services, so more than two people may actually be providing such counseling, but they do not spend 100 percent of their time on such services. Although respondents typically did not add many counselors, 66 percent of respondents indicated that they provided a wider array of foreclosure counseling services with their NFMC funds than what they could offer before the program.

The responses from the web survey of round 2 NFMC Grantees and Subgrantees were consistent with the trends reported in round 1. The median number of clients served by round 2 organizations that also received round 1 funds increased by 76 percent, from 203 in 2008 to 359 in 2009. Respondents that did not receive round 1 funds had an even larger increase of 116 percent, from a median of 74 clients served in 2008 to 157 in 2009. The expanded volume of clients served was again achieved with relatively small increases in the number of full-time-equivalent (FTE) counselors. The median increase for round 1 and 2 recipients was 25 percent (from 2.0 to 2.5 FTEs), while respondents who received only round 2 funding reported an increase in the median number of counseling FTEs from 1.0 to 2.0.

As with round 1 respondents, some of the increase in volume resulted from organizations increasing their coverage area: 46 percent of round 2 respondents indicated that they expanded their coverage areas with program funds. It is interesting to note that the same share of respondents who received funding in round 1 increased their coverage area as respondents who did not receive round 1 funds. Therefore, respondents who received round 1 funds were able to expand their services to an even larger area during round 2. The same was true for the types of services offered by respondents. Whether they previously received funding in round 1 or not, about two-thirds of respondents indicated that they were able to use round 2 funding to add services for their clients.

The NFMC program also helped build the national capacity of foreclosure mitigation counseling in other ways. Survey and case study respondents were asked to indicate the most important ways they expanded their organizational capacity to handle increased client flow. The most frequently cited method was to send existing staff to training to learn to handle foreclosure work. Experience as counselors was also highly valued but sometimes in short supply because of the demands for expansion of the counseling industry. This redoubled the importance of training.

NeighborWorks housing counselor trainings and housing counselor certifications were well regarded by survey and case study respondents. Training was instrumental in helping counselors experienced in pre-purchase work transition to foreclosure prevention counseling. Because many new programs for foreclosure prevention and mitigation have been rapidly introduced and frequently modified (most notably HAMP), training in the program specifics—for both public and private loan modifications and other solutions—has been important and eagerly pursued by organization directors and counselors at successful agencies.

In the course of the NFMC program, NeighborWorks also established a members' web site and message board that has allowed counselors to share questions, best practices, and other information across a national network. Survey respondents indicated that these media were helpful, with 44 percent saying that they were either useful or very useful. In addition, NeighborWorks held monthly WebEx sessions with NFMC Grantees and Subgrantees and periodic calls regarding HAMP guidelines. Most respondents indicated that both these offerings were either useful or very useful.

Improving Outcomes for Troubled Homeowners and Reducing the Number of Completed Foreclosures

While increasing the availability of foreclosure mitigation counseling services was an important NFMC goal, the ultimate measure of the program's success was whether such assistance actually helped troubled homeowners achieve better outcomes, such as avoiding foreclosure sale or obtaining mortgage modifications that allowed them to remain in their homes. Determining whether the program helped homeowners attain positive outcomes, therefore, was a primary focus of the NFMC evaluation.

To determine whether the NFMC program was able to improve homeowner outcomes, the evaluation relied upon statistical analysis using two main sources of data. First was the NFMC program production data, collected by Grantees and Subgrantees and reported regularly to NeighborWorks. These data include basic information on each homeowner (such as income, race, and ethnicity) and mortgage (such as interest rate and whether the loan was subprime) that received NFMC-funded counseling services.

The second source was loan data from LPS Applied Analytics, Inc., (LPS), a commercial company that compiles home mortgage performance data from large loan-servicing organizations. The LPS data include numerous characteristics of each mortgage loan, including the borrower's FICO score at loan origination, the original loan amount, the current interest rate of the loan, the loan type (fixed rate, adjustable rate [ARM], option ARM), and the ZIP code of the mortgaged property. The data also track various loan performance indicators, including when a borrower defaulted on a loan and whether the loan has gone into foreclosure. The LPS loan performance data are updated monthly, which permits precise tracking of delinquency and foreclosure status of individual loans.

To determine program outcomes, a sample of 180,000 NFMC production data records (about 22 percent of all round 1 and 2 NFMC clients) was matched to LPS loan performance data. These loans were statistically comparable, on observable characteristics, to the entire population of NFMC-counseled homeowners and thus constituted a representative sample. A non-NFMC comparison sample of 155,000 loans was also created by matching characteristics of the NFMC sample to uncounseled mortgages. These two samples were analyzed using multivariate techniques that controlled for any remaining differences between the counseled and non-counseled samples. Through these methods, it was possible to determine whether differences in selected loan outcomes could be attributed to NFMC counseling or to other characteristics of the homeowner or mortgage.

At the start of the evaluation, there was some reason to doubt whether foreclosure mitigation counseling would be able to help homeowners. For example, clients' situations might be too severe for counseling to improve, especially if homeowners did not seek counseling assistance until late in the foreclosure process. Or, perhaps only the most seriously troubled homeowners would decide to get help—those with little hope of getting a positive outcome despite counselors' best efforts. Alternatively, perhaps the loan modifications or other remedies being offered by mortgage servicers would prove insufficient to provide any sustainable solutions. Or maybe the introduction of HAMP in the second year of NFMC would obviate the need for counseling, since everyone who was eligible would get a standard HAMP loan modification.

Despite these potentially overwhelming obstacles, analysis of the NFMC program's activities and the subsequent performance of counseled and non-counseled mortgages found consistent, compelling, and robust evidence that the program has provided substantial benefits to homeowners facing foreclosure. Counseling reduced loss of homes to owners in a range of stages of default, increasing multiple positive outcomes and decreasing completed foreclosures. In almost all cases, counseling has remained effective in obtaining positive outcomes, even after HAMP began in April 2009. The most important conclusions are summarized in table 1 and discussed below.

NFMC Helped Homeowners Get More Affordable Loan Modifications

One of the most commonly sought potential solutions for a homeowner who cannot afford his or her monthly mortgage payments is a loan modification. Distinct from a mortgage refinancing, which is an entirely new loan, a loan modification involves the mortgage servicer changing the terms of the current mortgage, such as lowering the interest rate, extending the loan term, reducing the unpaid principal balance, or some combination of these steps. These changes would ideally lower the amount of the monthly payment to make the loan affordable to the homeowner. (Early in the foreclosure crisis, many loan modifications did not result in affordable, or even lower, loan payments.) HAMP, which was introduced in April 2009, was intended to increase the number and quality of loan modifications by providing financial incentives to mortgage servicers to modify loans and by specifying clear loan modification guidelines and a target of reducing monthly payments to 31 percent of an owner's gross income.

Statistical analysis of loan performance data revealed that NFMC clients that had their loans modified in 2008 and 2009 paid $176 a month less, on average, than non-counseled clients that also received loan modifications. This average payment was 7.8 percent less than it would have been without counseling. Over 12 months, homeowners who got modifications with the help of NFMC counseling saved an average of about $2,100 on mortgage payments. Interestingly, the ability of counseling to lower client monthly payments was the same both before and after the start of HAMP, indicating that counseling retained its positive benefits even with HAMP loan modification guidelines in place.

TABLE 1. NFMC Program Impacts on Mortgage Outcomes

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

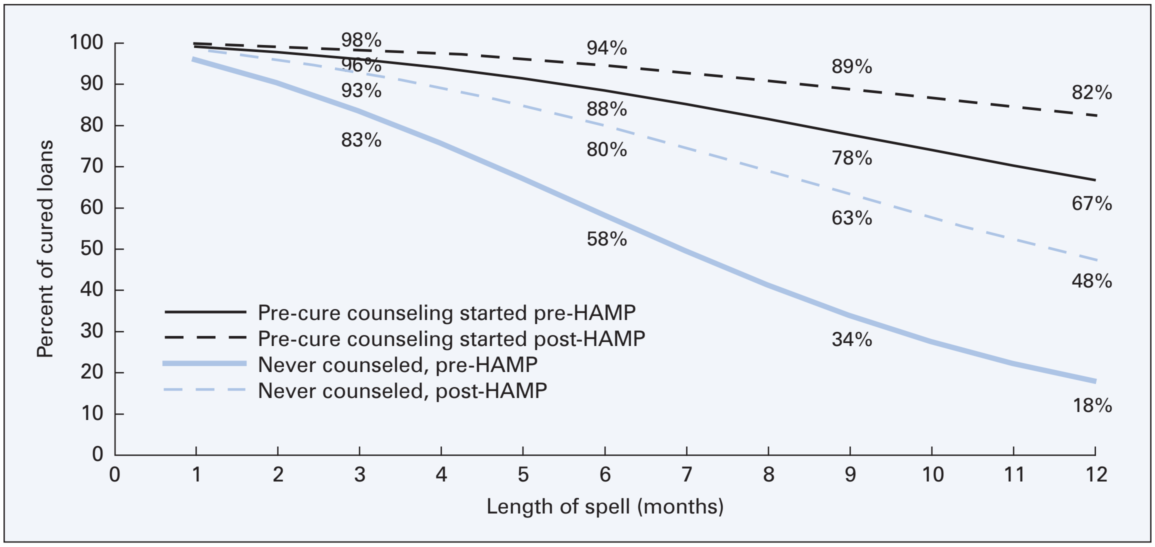
a. Serious delinquency is three or more months of missed payments.

NFMC Helped Homeowners Cure Serious Delinquencies and Foreclosures and Subsequently Remain Current on Their Loans

NFMC-counseled homeowners were more than two-thirds more likely to remain current on their mortgages after curing a serious delinquency or foreclosure than were non-counseled homeowners. Counseling increased the share of loans that did not reenter serious delinquency or foreclosure (figure 1), lowering redefault rates by two thirds (67 percent) over nine months (the average length of time loans were observed after a cure) for loans cured with a loan modification before the start of HAMP. After HAMP, counseling reduced redefault rates nine months following a modification cure by 70 percent.[1] The combination of the two federal interventions (NFMC counseling and HAMP) lowered redefault rates for borrowers curing loans through modifications an impressive 83 percent over nine months for a typical counseled loan.

Only a small part of the reduction in redefaults was attributable to counseling's effect on the size of monthly payment reductions from loan modifications. The great bulk of the sustainability benefit resulted from other impacts of counseling, such as helping borrowers improve their financial management skills, assisting them in managing relationships with servicers and investors, and providing other types of support. Nonetheless,

FIGURE 1. Estimated Cumulative Rates for Avoiding Redefault of Modification Cures for Counseled and Non-Counseled Homeowners



Sources: LOGIT model estimates from NFMC program data for January 2008 to December 2009 and LPS performance data through December 2010.

although very few modifications included this feature, the relative odds of redefault were further reduced when the loan modification curing a serious delinquency or foreclosure included principal reduction.

For cures obtained *without* loan modifications, counseling also improved sustainability (figure 2). Before HAMP, counseling lowered the redefault rate by 49 percent nine months after the cure of a serious delinquency or foreclosure without a loan modification. Once HAMP began, the effect of counseling on redefault was smaller but still substantial. Counseling lowered recidivism for post-HAMP non-modification cures by nearly 32 percent after nine months. As with modification cures, the combined impacts of NFMC counseling and the presence of HAMP yielded a substantial reduction (63 percent) in redefaults of non-modification cures over nine months.

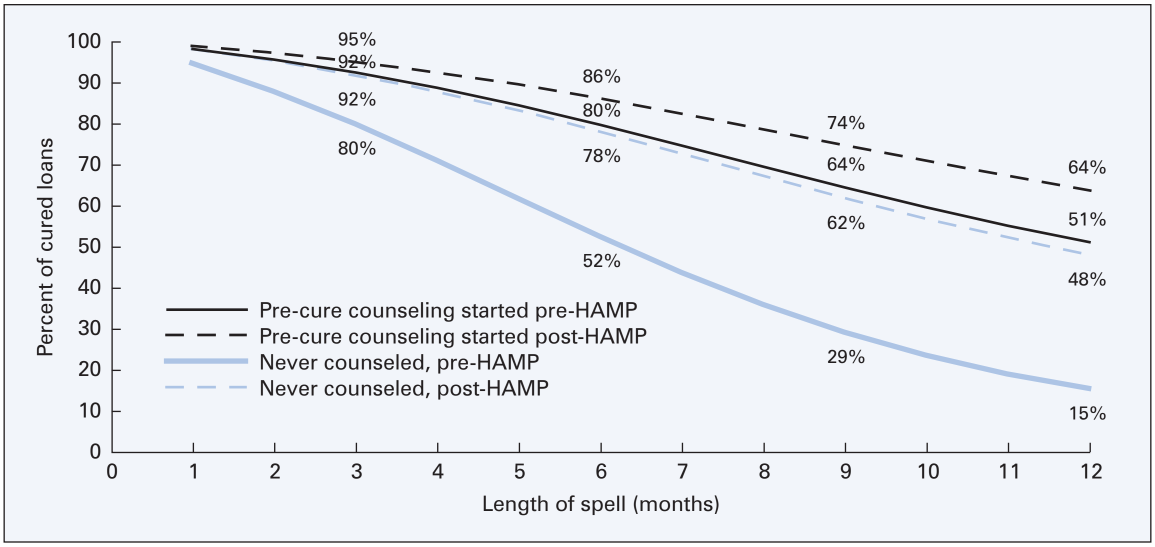
In addition to increasing the sustainability of cures, NFMC counseling improved client outcomes by increasing the likelihood that a borrower would cure a loan by bringing a serious delinquency or foreclosure back to current status. NFMC counseling came close to doubling the odds of modification cures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

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

The impacts of counseling on the rates of non-modification cures differed from those for modification cures. Counseling assistance was associated with *fewer* non-modification cures, overall and at all counseling levels. At 12 months after loans became seriously delinquent or entered foreclosure, cure rates were 9 percent without counseling compared with 7 percent with counseling pre-HAMP, and 13 percent without counseling compared with 9 percent with counseling thereafter. A likely interpretation of this finding is that some people who would have obtained non-modification cures without counseling were, with counseling, able to obtain cures with modifications instead. Indeed, the decrease in non-modification cures was more than offset by the increase in modification cures for counseled homeowners, resulting in a modest improvement in overall cures of serious delinquencies and foreclosures attributable to NFMC counseling.

A crucial outcome for borrowers is curing loans in serious delinquency or foreclosure combined with sustaining those cures (i.e., avoiding redefault). When the results of the sustainability and cure analyses are synthesized, they demonstrate that NFMC counseling nearly doubled the rate of curing and sustaining troubled loans. The total percentage of loans both cured and sustained with counseling was two-and-a-half times the percentage without counseling before HAMP, and nearly two-thirds higher

FIGURE 2. *Estimated Cumulative Rates for Avoiding Redefault of Non-Modification Cures for Counseled and Non-Counseled Homeowners*



Sources: LOGIT model estimates from NFMC program data for January 2008 to December 2009 and LPS performance data through December 2009.

than the percentage without counseling after HAMP. Counseling in both periods showed strong effects in helping people become current on their loans and stay that way. NFMC counseling and the HAMP environment together raised the rate of sustained cures by a factor of five.

NFMC Significantly Reduced Completed Foreclosures, Which Yielded Substantial Social Savings

One of the most significant impacts of the NFMC program on the national foreclosure crisis is in increasing the number of foreclosures ultimately avoided. Between January 2008 and December 2010, 10.3 percent of round 1 and 2 NFMC clients had a foreclosure completion.[2] Without counseling, this percentage would have been 1.15 times as great. Extrapolating the modeling results from the estimation sample to all clients who received counseling in rounds 1 and 2, the NFMC program reduced the number of foreclosure completions by 13,000 by the end of 2010. In other words, the NFMC program prevented nearly one in seven foreclosures that would have been completed without counseling. These results were driven by NFMC performance after HAMP, which reduced the total number of foreclosure completions by 36 percent (figure 3). Before HAMP, there was no statistically measurable difference in foreclosure completion rates between counseled and non-counseled borrowers.

Since foreclosure sales create costs for homeowners, lenders, local governments, and society at large, avoiding foreclosures generates social cost savings. Each foreclosure prevented by the NFMC program was estimated to have saved an average of $70,600 in avoided costs. These savings included $10,000 in moving costs, legal fees, and administrative charges for homeowners; $40,500 in deadweight lender loss to society, which represents 36 percent of the total lender loss; $6,500 in local government administrative and legal costs; and $13,900 in reduced neighboring property values.[3]

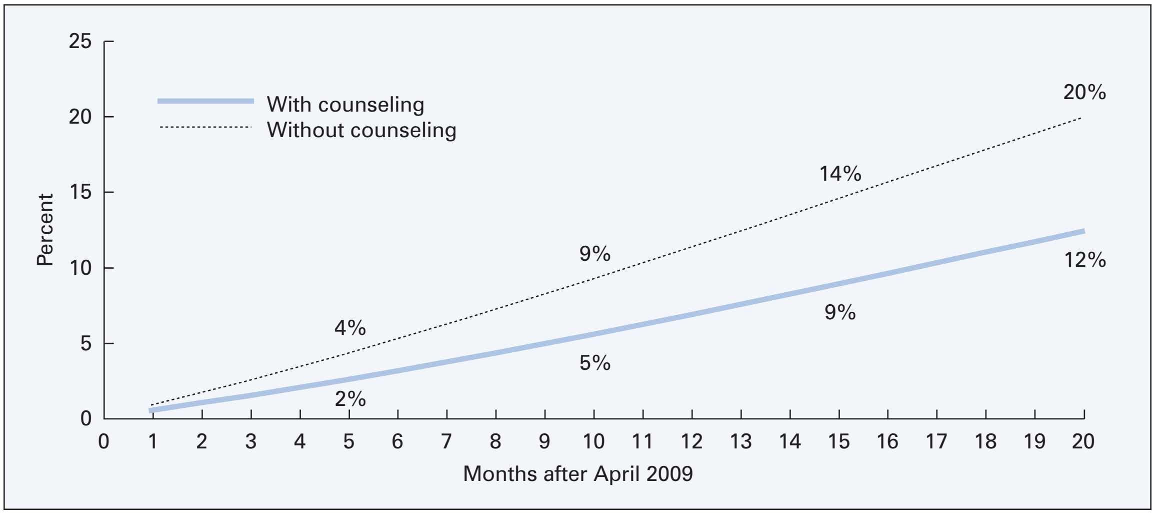
Assuming the 13,000 loans that avoided foreclosure through December 2010 because of counseling do not complete foreclosure at some point in the future, the NFMC program has helped save local governments, lenders, and homeowners *$920 million*, which is about $1,200 per client served by the program in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

Challenges and Best Practices

Millions of homeowners in the United States still face the possibility of foreclosure and the loss of their homes. Counseling organizations across the country continue to work with many of these homeowners to help them avoid foreclosure. The NFMC program evaluation gathered extensive information from counseling agencies, through web surveys and case study interviews, on the challenges of obtaining good outcomes for their clients. Through these sources of information, the evaluation revealed the strategies and best practices that some successful counseling organizations have employed.

When asked to identify the major challenges to achieving successful outcomes for clients, Grantee and Subgrantee representatives said that

FIGURE 3. *Estimated Share of Loans That Had a Foreclosure Completion, with and without Counseling, Post-HAMP*



Sources: LOGIT model estimates from NFMC program data for January 2008 to December 2009 and LPS loan performance data through December 2010.

two issues were most problematic: (1) servicers were not sufficiently responsive and (2) clients, when entering counseling, were typically facing financial difficulties usually resulting from a loss in income. The organizations providing counseling services with NFMC funding developed some strategies to address the two major challenges. In addition, counseling agencies stressed the importance of working with clients so they are empowered and, after meeting with their counselor, ready to take the required next steps with the lender. The following discussion details the strategies used to overcome the two main issues and to interact with clients so good outcomes are maximized.

Increasing Servicer Responsiveness

The inability to obtain good servicer responses to resolve troubled loans was the challenge or obstacle most frequently cited by counselors as impediments to obtaining successful outcomes for clients (although by only a narrow margin over borrowers' loss of income). Counselors most frequently mentioned three challenges as severe: slow response or lack of response by servicers to applications for loan modifications, servicers losing documents submitted, and servicers switching clients' cases from one staff person to another. Other severe challenges concerned the decisionmaking standards and processes used by servicers: clients being turned down for HAMP modifications, even when they met payments during their temporary modifications; servicers' unwillingness to offer adequate modification or forbearance opportunities to fit homeowner needs; and a lack of clear and transparent standards by which servicers determined what, if any, workout solution was offered.

According to case study interviews, successful counseling agencies responded to challenges in working with servicers in five ways, cited below as best practices for foreclosure mitigation counseling.[4]

- *Reducing the chaos and delay from lost documents.* Difficulties transmitting the necessary documents for loan modifications and other solutions, confirming their receipt, avoiding their loss at the servicer end, and identifying missing documents so they can be resubmitted have been major obstacles to effective foreclosure prevention. In nearly every case, well-performing counseling agencies have invested substantially in addressing this issue, including adopting HOPE LoanPort™ or their own electronic systems for tracking documents and negotiation.
- *Developing contacts and relationships with servicers and learning whom to go to for cooperation, escalation, and quick response.* Successful counseling organizations consider building contacts and relationships with servicers crucial. Organizations need to know the right people to call for cooperative problem-solving, finding non-foreclosure solutions, and moving stuck cases forward.
- *Knowing how servicers are likely to assess a proposed modification, forbearance, or other proposed solution.* Assessing what servicers will approve and creating proposals that work for the client and the servicer are important counselor goals. Some counselors focus on their initial proposal; others anticipate frequent negotiation. In both cases, a key ingredient is a counselor who understands how underwriting works so he or she can provide realistic options that the servicer will entertain.
- *Following up persistently.* Counselor persistence is central to many aspects of preventing foreclosure, including submitting applications and proposals to servicers, monitoring progress, and pursuing

solutions that work for their clients. But persistence also includes negotiating solutions creatively. Successful counselors never take "no" for an answer, if analysis suggests that preventing or mitigating a foreclosure is at all feasible.

- *Structuring single-servicer events, live contact between servicers and clients, and live contact between servicers and counselors.* Direct in-person contact between servicers and counselors and homeowners can be valuable, if structured properly. The key is to put together the necessary pieces for actual loan modifications and other solutions to be reached *on site, during the event.*

Dealing with Major Income Reductions

Counselors indicated that most clients seek foreclosure prevention services because of difficulties related to a drop in income, often from a job loss. Serving these clients is especially challenging because servicers are more likely to approve a loan modification for clients who can document that their income reduction is temporary. In fact, one counselor said that he/she does not even contact servicers for clients who are unemployed because of the low probability of getting any modification approved for clients with no income. Nonetheless, counselors use several strategies when working with clients with an income reduction.

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

Working Successfully with Clients

Counselors can only be as effective as their clients. Given the demand for foreclosure prevention services, effective organizations get clients proactive and engaged in the process. In addition, successful organizations provide realistic evaluations to their clients regarding the chances of obtaining loan modifications and other retention solutions. Two areas that counselors indicated were most important when working with clients are that (1) clients bring all required information to their initial one-on-one counseling session and (2) clients take ownership of the foreclosure counseling process.

- *Ensuring that clients bring all required information to the initial one-on-one counseling session.* Counselors stressed that servicers will not make any decision on a client's proposed loss mitigation solution, which often includes a request for a loan modification, directly. Rather, servicers often require authorization forms from lenders, budgets, hardship letters, and other documents. These requirements vary by servicer. Agencies have instituted strategies (such as checklists and precounseling orientation meetings) to ensure that clients bring the required documents to their first counseling session so the counselor has all the information needed to contact a servicer during that session.
- *Empowering clients so they successfully manage the foreclosure prevention process.* Agencies do not have the resources to manage all aspects of a client's case. Therefore, counselors said that it is critical to work with clients who are informed about getting loan modifications or other outcomes, who understand the options available given their circumstances, and who will provide loan servicers with the documents and follow-up needed to reach a decision. Many counseling organizations, as a first step, communicate details about the foreclosure process to homeowners during an initial group counseling session. The group session helps clients start thinking about a preferred solution, which may not include retaining ownership of their homes, and increases the effectiveness of subsequent one-on-one counseling.

Conclusion

The National Foreclosure Mitigation Counseling program started in 2008 to help homeowners facing foreclosure. To measure how well the program met this objective, the Urban Institute conducted a three-year evaluation of the program. This evaluation included interviews with mortgage industry and program participants, reviews of program reports and documents, surveys of counseling organizations, and in-depth statistical analyses of outcomes for mortgages of counseled homeowners compared with outcomes for homeowners without counseling assistance.

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

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

Acknowledgments

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Notes

1. The redefault rate is equal to 100 percent minus the share of cured loans that do not enter foreclosure or serious delinquency. For example, the redefault rate for modification cures where counseling started before HAMP was 11 percent after nine months (100 minus 89 percent).
2. Foreclosure completion includes foreclosure sales, short sales, and other involuntary losses of a home through foreclosure-related actions.
3. The benefit/cost calculation of the NFMC program is based on a methodology used by HUD (n.d.) for its Regulatory Impact Analysis of another foreclosure prevention effort, the Emergency Homeowners' Loan Program. See Mayer et al. (2011), 98–101 for further details on the derivation of these cost figures.
4. The full case study report is included as appendix G in Mayer et al. (2011).

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