

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

Desirée Fields, Kimberly Libman,  
Susan Saegert, PhD, Hélène Clark, PhD, & Fran Justa, PhD

### **CONTENTS**

<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>II. METHODS &amp; ANALYSIS...3</b>	
<b>III. DESCRIPTIVE STATISTICS.....</b>	<b>5</b>
<b>IV. FINDINGS.....</b>	<b>6</b>
<b>V. BEST PRACTICES &amp; RECOMMENDATIONS.....</b>	<b>24</b>
<b>VI. CONCLUSION.....</b>	<b>32</b>
<b>VII. ACKNOWLEDGMENTS.....</b>	<b>33</b>
<b>VIII. APPENDIX A.....</b>	<b>34</b>
<b>IX. ENDNOTES.....</b>	<b>38</b>

### **I. INTRODUCTION**

Foreclosure rates have risen steadily over the course of a generation, and the trend appears to be accelerating.<sup>1</sup> In 2006 foreclosure was started on nearly 800,000 homes.<sup>2</sup> 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.<sup>3</sup>

A number of causes of rising foreclosure have been advanced including:

- Increases in adjustable rate and subprime loans;
- Higher incidence of trigger events such as job loss or divorce;
- Entry into loan market of lower income households with different trigger events, and more frequent disruptive life events;
- Increased risk tolerance;
- Changing structure of loan servicing;
- Relaxed underwriting criteria with resultant smaller financial cushions among many new homeowners;
- Fraudulent practices within the real estate and financial sectors;
- Lack of consumer financial literacy among first-time homeowners, especially those with lower income, less education, and members of minority groups.

While various researchers favor one or the other of these explanations, limitations on existing data prevent a clear answer from emerging, although there is strong evidence for a relationship between subprime loans and foreclosure rates.

## 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.<sup>4</sup> These groups are referred to in this report as NeighborWorks Organizations (NWOs).<sup>5</sup>

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.

Building on these findings, HERG undertook the current study in 2006 to examine questions about why people did not contact a counseling agency, what they did do when they were struggling financially, and what factors were barriers to solving their mortgage delinquencies. Highlighting the importance of this project was our survey finding that homeowners who experienced financial difficulty were more likely to resolve their problem when they did seek help from a counseling agency.

A Roper study 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 delinquent borrowers did not feel that they needed to contact the lender for help.<sup>6</sup> In both the Roper and HERG studies, respondents tended not to be aware of what kinds of options were available if they did seek help.

We used a focus group research design so that we could understand the complex life, psychological and financial issues that factor into the choices homeowners make about seeking help. Focus groups allow for in-depth discussion of the issue of concern and are useful for understanding how people who have had similar experiences frame an issue. We conducted focus groups with three different groups to get perspectives from all sides: homeowners who had sought help from a counseling agency,

### Partners in Research: NeighborWorks America

Created as part of the Neighborhood Reinvestment Act of 1978, NeighborWorks America (NW) is a congressionally funded network of nonprofit NeighborWorks Organizations (NWOs). Each NWO works to define their goals, and over 200 are improving their communities by increasing homeownership among low- and moderate-income American families as part of NW's Campaign for Homeownership. Partnerships with municipalities, local banks, larger lenders, and sellers of mortgage-backed securities help to fund this effort. Through a combination of homeowner education, lending, and financial counseling NWOs help low- and moderate-income families achieve the American dream. We partnered with an NWO at each research site to aid in our recruiting efforts for homeowner focus groups and to recruit participants for our focus groups with nonprofit professionals.

homeowners who had not sought help from a counseling agency, and staff at counseling agencies who work with clients at risk of foreclosure.

The focus groups were conducted in five cities, and were designed to find out:

- 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?
- Why do some delinquent homeowners make calls for help and others do not?
- What strategies do nonprofit organizations and foreclosure intervention professionals use to assist homeowners at risk of foreclosure? And, which strategies are more and less successful?

## II. METHODS AND ANALYSIS

### 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 delinquency among low- and moderate-income homeowners, and their efforts to avoid foreclosure. The data generated from the 2004-2005 survey partially guided the site selection process, particularly self-reports from homeowners on their incidence of being 30 and 90 days late on mortgage payments and their fear of foreclosure. These indicators, in combination with census data, state per-capita foreclosure rates and the prevalence of high-interest subprime loans by Metropolitan Service Area (MSA) helped us identify sites where homeowners might be particularly at risk of foreclosure. Because we set out to speak with both homeowners who had sought help for mortgage delinquency and those who had not, the presence of resources like a NeighborWorks Organization (NWO) or similar community-based nonprofit homeownership education organization, credit-counseling centers such as Credit Counseling Resources Center (CCRC), and/or anti-predatory lending campaigns was an additional selection criteria. The final sites for the focus group research were:

- **New York, NY**
- **Hamilton, OH**
- **St. Louis, MO**
- **Waco, TX**
- **Duluth, GA**

Before the start of data collection we identified NHS of Chicago as an advisory site based on their pioneering work with the Home Ownership Preservation Initiative (HOPI) and their own recent focus groups with homeowners<sup>7</sup>. We consulted them on recruitment, current issues in the mortgage lending and nonprofit homeownership education community, and our focus group protocols.

### A Note on 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; the nonprofits located in Hamilton and Middletown work together closely and are able to provide rescue funds to local homeowners on a limited basis.

**St. Louis, MO:** Homeowners who responded to the 2004-2005 survey have a very low median income compared with the national average, and survey data found that nonprofit customers 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 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 4<sup>th</sup> 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, which provides a broad spectrum of housing resources, counseling, and education services.

*Please see Appendix A for a more detailed discussion of site selection and information about the data sources used in site selection.*

## Sample

In order to reach prospective participants we partnered with a nonprofit at each site and sent out mailings to their client lists. Where possible the mailings were targeted to reach homeowners who had sought post-purchase or foreclosure intervention services, or who the nonprofit knew to have missed payments on an outstanding loan, e.g. a down payment assistance loan originated with the nonprofit. In addition to mailings, newspaper ads were placed in local newspapers in Hamilton, Waco, and Duluth (the cost of such an ad in New York City is prohibitive and the response to our mailing in St. Louis was so strong that an ad was not required there).

Respondents to the mailings and newspaper ads called a toll free number set up for the purpose of screening potential participants. Prospective participants called the number and left a message with their contact information. Project staff selected participants and assigned them to a group based on their responses to the screening questions. Participants were selected for inclusion on the basis of being a homeowner, living in the home they owned, whether they were current on their mortgage payments, and whether they had sought help from a nonprofit; their lender; a financial counseling hotline; a friend or family member; or any other source. Homeowners living in the homes they owned, who were behind on their mortgage by at least 30 days, or who had been behind but had gotten current within the last 30 days, or would be current within the next 30 days were selected for inclusion.

During screening interviews we grouped participants as “help seekers”--delinquent homeowners who contacted a nonprofit counseling organization for foreclosure prevention assistance and “non help seekers”--delinquent homeowners who did not contact a nonprofit counseling organization, but who may have sought assistance in other places. After conducting initial screening interviews we found that almost all potential participants had sought help for mortgage delinquency from their lender, a friend or family member, a social welfare agency, a nonprofit organization, another bank, a real estate agent or mortgage broker, or a lawyer. In all, nine focus groups and two individual interviews were conducted with a total of 88 homeowners. While we made an effort to reach out to Spanish-speaking homeowners and planned on conducting focus groups in Spanish in New York City, our recruiting efforts did not yield enough eligible participants to do so.

Focus groups with professionals included staff from nonprofits, community development organizations, municipalities, and local foundations. Altogether five focus groups were conducted with a total of 39 nonprofit professionals who come into contact with homeowners at risk of foreclosure.

A pilot focus group was held in New York City. After this pilot was conducted a short, closed-ended questionnaire was added to our data collection protocol. The questionnaire was designed to get the kind of detailed information about individual homeowner’s mortgage, help seeking efforts, and current mortgage situation that are difficult to track in the focus group format. Participants were asked to complete the optional questionnaire before each focus group began.

Many homeowners who participated in our focus groups were African-American, with more female than male participants. Most had experienced difficulty with health problems of their own or of a close relative, problems with 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, and all expressed being challenged by the demands of homeownership. Therefore our findings may be biased toward the experiences of these participants and may not generalize beyond homeowners 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.

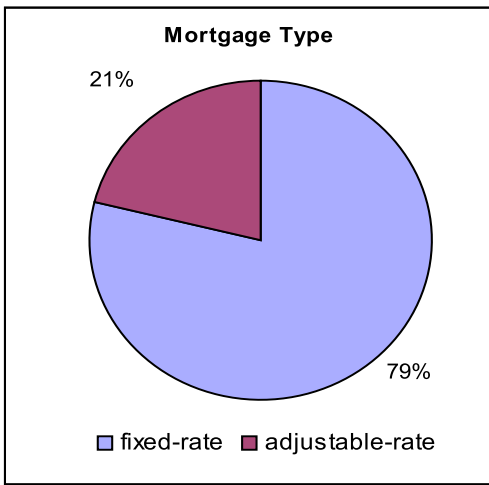
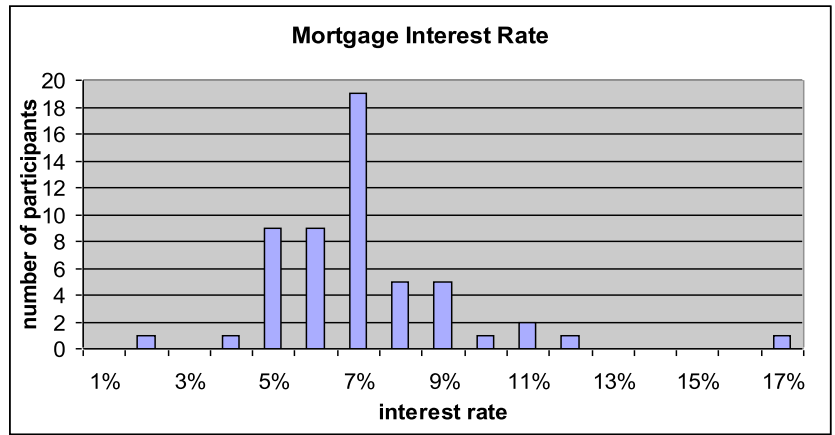
## Analysis

Altogether we conducted 14 focus groups and two individual interviews with 127 participants. All focus groups and interviews were professionally transcribed. In total the transcripts accounted for over 800 pages of data. We analyzed the focus groups and interviews 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, creating matrices of data.

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. There were 16 survey respondents in Waco; 18 in Hamilton; 19 in St. Louis; 8 in New York City; and 6 in Duluth, for a total of 67 completed closed-ended questionnaires.

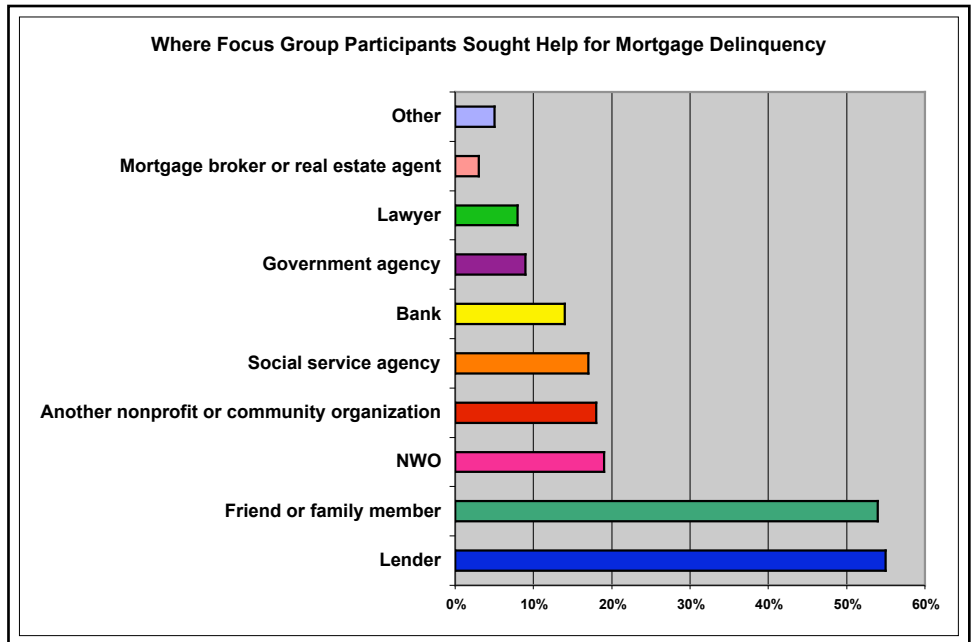
III. Descriptive Statistics from Questionnaire

**The average mortgage interest rate was 7.85%**  
**The median interest rate was 7%**



**79% of respondents (53 people) are in a fixed-rate mortgage, of which 73% (39 people) have a mortgage term of 30 years.**  
**The remaining 21% (14 people) are in adjustable-rate mortgages**

**Almost all--92% (62 people) of respondents reported seeking help.**  
**Five people out of 67 (8%) did not seek help for mortgage delinquency from any of the sources of assistance**



## IV. FINDINGS

### *How do homeowners define and understand financial trouble?*

#### **Defining Trouble**

The homeowners we spoke to defined financial trouble in a number of different ways. 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, e.g. the man who stated “*In my family if you’re not struggling, you’re not living*”. However homeowners varied in their understanding of financial trouble—while some 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. For the former group this understanding of trouble was driven largely by trigger events such as the loss of a job, while the latter group, accustomed to ongoing, low-level financial strain, felt that trouble came only when they were unable to double up on their mortgage payment the following month. As delinquency progressed, people’s sense of financial trouble became heightened by the deluge of calls and letters that most participants received from their lender and from collection agencies. There was general agreement that a notice of foreclosure letter also set off alarms among homeowners. The experience of financial trouble and the process of help seeking are colored by the way homeowners understand this experience as well as their emotional reactions to it.

#### **Emotionality of Delinquency**

People experience a range of intense emotions such as depression, anxiety, hopelessness, confusion, fear, and victimization when they are behind on their mortgage payments. 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 for it. Such emotions can perpetuate financial problems by interfering with clear thinking and logical decision making (such as when people refinance ill-advisedly). Decision-making depends on an individual’s ability to search for and assimilate all relevant information in an unbiased manner, and to carefully and systematically consider all alternatives.<sup>8</sup> Individuals under intense stress are often able to focus only on a limited number of alternatives because of the diminished ability to perceive and process information during stress. The panic associated with mortgage delinquency and the threat of foreclosure affects the ability of homeowners to consider alternatives in a systematic way, and may cause them to switch frantically between alternatives and to not fully consider the implications of each one.<sup>9</sup> Of making financial decisions under stress, one participant stated: “*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.*” Emotional reactions to delinquency and the process of help seeking affect the willingness and ability of homeowners to locate viable assistance for mortgage delinquency and avoid foreclosure. Because the emotions brought on by this mix of life circumstances color every aspect of people’s lives and decisions regarding their home, it is vital that homeowners learn more about how to work with these feelings. As one homeowner remarked, before making any decisions about how to proceed in the situation it is critical to “*try to get your emotions in check first...the first step is just getting, handling your emotions about it, [to] put it in perspective*”.

**Feelings of betrayal and victimization were common among participating homeowners, and not just those who fell prey to predatory lenders.** Making financial decisions under stress can make it difficult to recognize fraud and lead to trusting people who should not be trusted. Those who fell victim to predatory loan schemes, whether they were refinance or home purchase loans, felt “*betrayed*”; “*taken advantage of*”; and “*victimized*”. In addition to feeling betrayed by predatory lenders, many homeowners felt that they had been betrayed by bankers and lenders in general, as well as the government. Focus group participants looked to lenders as a trusted source of financial information, believing that lenders had their best interests at heart. Those who relied on mortgage brokers for information about their loans without doing their own research frequently ended up with loans that were a stretch for them to afford. These participants quickly fell behind if they got sick, had to pay for car repairs, or lost their job. The imbalance of information, knowledge, and money between themselves and the financial industry, combined with their lack of legal protections from the government led a number of people to feel victimized by lenders, bankers, and the government.

Many people emphasized that they felt confused, helpless, alone, and afraid throughout the experience of mortgage delinquency. Many people used metaphors like “drowning”; “being stuck in quicksand”; and “trying to keep my head above water” to describe their feelings about being behind and trying to catch up. First generation homeowners felt especially alone in their financial struggles because they were unable to turn to the kind of knowledge and equity that accumulate through multi-generational homeownership. Homeowners are not only overwhelmed by their financial difficulties, but also by the ensuing deluge of phone calls and letters from their lender (as well as other creditors and offers of “help”), and the “confusing” process of seeking help:

***“There’s nowhere to turn to. No matter where you go you think you’re going to the right place, and then it turns out to be the wrong place”.***

People stated that they began to feel scared and alone, e.g. “you feel totally abandoned”, as their delinquency progressed and the process of foreclosure was initiated. After seeking help through their lender, social service agencies, and nonprofits with little results, homeowners said they “start to feel very helpless, and hopeless, and then...depressed”. Indeed, while mortgage delinquency and the life circumstances surrounding it are a difficult experience, it appears that help seeking itself can frequently compound these difficulties, with exhaustion and hopelessness ensuing. Of this process some homeowners stated: “you just want to give up”... “and you don’t feel like asking anybody anymore to help”.

**For a number of focus group participants, mortgage delinquency had even more serious consequences, leading to depression.** Several people commented on how hard it was to keep up with everyday activities like going to work and taking care of their families:

***“I feel out of it”***

***I’m emotional and tired. I wake up tired and I go to bed tired”***

***“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”***

The depression and sadness associated with ongoing economic struggle, the progression of delinquency, and the lack of viable sources of help plagued some people to the extent that they began to have suicidal thoughts. Homeowners strongly emphasized the sadness they felt when they were not able to get caught up, saying that “it was total depression”, and that they felt like failures. Mortgage delinquency also led to regret about homeownership among some people, who stated that “it was supposed to be a blessing and it wasn’t”. Indeed, one woman who eventually lost her home to foreclosure expressed relief to be rid of the house.

**Emotional reactions to delinquency take their toll on families.** Focus group participants stated that they had difficulty taking care of their families as their financial struggles progressed:

***“It’s depressing because it’s like she’s [participant’s daughter] at that age where you’re trying to nurture them to do the right thing and you’re struggling...You’re putting everything into trying to save this and it seems like you’re not getting anywhere and it’s depressing. Your whole house becomes depressed because all they hear is ‘we can’t, we can’t, we can’t’.”***

Participants often lost their tempers at their children or spouses because of the level of stress they were experiencing, sometimes leading to marital problems and even divorce. Women and men expressed different facets of the emotional reactions related to financial difficulty and their affect on family relationships. While women emphasized the difficulty of taking care of their families while under stress,

**Method: About Focus Groups**

A focus group is a conversation focused on a given topic. As a research methodology focus groups are used to gain understanding of the emotions, stories, and diversity in thinking groups of people have about a topic. Because they take place in a group format focus groups are a socially grounded research method, creating situations that can provide broader insight into a topic than survey or interview methodologies.

Two researchers, trained in focus group methodology and with extensive experience moderating group discussions for research purposes, co-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. In addition, participants were given the opportunity to create a message on video after the focus group concluded.

All participants in this study received a meal and a \$100 incentive.

the threat of losing their home led men to feel that they were failing as husbands and fathers--losing a home to foreclosure would be more than just losing the roof over their family's heads, it would be losing one's sense of dignity, pride, and possibly even the faith that their families had in them. 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."*

**Mortgage delinquency is associated with a range of intense emotional reactions.** However it is important to make clear that for the people we spoke to, these emotions are not grounded only in delinquency—this is just one part of a mixture of other life circumstances like illness and divorce; ongoing economic marginalization through underemployment, downsizing, and outsourcing of jobs; the confusing and difficult process of accessing viable assistance for delinquency and other financial problems; the way many people are treated by their mortgage lenders and loan servicers; and being taken advantage of by predatory lenders. The emotional responses to these life circumstances affect not only homeowners and their families, but also the communities they live in, their willingness and ability to seek assistance for mortgage delinquency, and the kind of assistance they turn to in this situation.

**Understanding of the Problem**

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 both groups seek help from multiple sources and try to catch up on their own, they differ in how they see their ability to resolve their mortgage delinquency and avoid going into default and foreclosure.

**Many homeowners expressed a strong sense of personal responsibility for resolving their situation and often for the root causes of it as well.** For these people, the experience of delinquency and the hardship associated with it opened their eyes to problematic spending habits and poor budgeting. Some homeowners shared how they were able to re-evaluate and prioritize their spending because of their financial struggles, such as the woman who began clipping coupons, planning her errands around minimizing gas usage, and cutting out extra treats for her children once she realized that she *"had a spending problem"*. Others admitted that they fell into a predatory loan situation 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"*, stating that *"I did this whole thing myself"* (trying to make real estate investments after having secured a good mortgage led to delinquency).

**Among homeowners who imbue mortgage delinquency with personal responsibility there is a good deal of determination to get through the situation and stay in their homes, no matter what the difficulty**—as one participant said, *"When you give up that's when they get you. They send those foreclosure notices, they want you to jump up and move out. Don't*

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

*jump up and move out"*. These homeowners were often persistent in working out a forbearance, workout, or loan modification agreement with their lenders 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"*. While those who were able to arrange loan repayment plans with their lender felt these plans were difficult to afford, they felt that getting caught up was worth it, so *"you just live with no money and work really hard, you just find a way to make the money"*.

**While some homeowners bring a great deal of personal responsibility to mortgage delinquency and its resolution, other homeowners in this situation felt that they had no control.** It is important to stress that the latter still went to great lengths to seek help for mortgage delinquency and worked to get caught up on their mortgages on their own as well. These participants 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”*. This group of people tended to emphasize their powerlessness and lack of control vis-à-vis lenders, bankers, and the government. For example, when one homeowner remarked that lenders *“fail to understand that they have all the money so they think they have all the power”*, another corrected him by saying *“They do have all the power”*, to which the first agreed, adding *“—and they don’t want it changed”*. These focus group participants thought that it was futile to try to change the attitude of lenders and how they work with homeowners when they get behind on their mortgage, because *“lenders just want you to get in deeper before they’ll help”*.

**This group of homeowners felt that they were trapped in delinquency despite doing everything they could to be responsible homeowners, and rarely saw a way out of their situation.** They expressed that their mounting debt was beyond their control, and that the government, in addition to mortgage lenders, played a role in their entrapment in the cycle of debt: *“our government won’t let us get out of debt”*. Homeowners felt that *“there’s nothing we can do, no one there to help”*, and that *“there’s no hope in sight”*. While these focus group participants had put great effort into seeking help and attempting to get themselves 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”*. 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, lenders, and bankers.

### *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 one man remarked, *“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.”* Seasonal fluctuations in utility bills also contributed to putting the cost of ownership beyond 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.

#### **The Cascade of Trouble**

Among the homeowners that we spoke to, ownership is maintained within a home economy that is a delicate balance 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 income shocks. Furthermore, many lower-income people work in industries that are susceptible to economic downswings, e.g. retail and manufacturing jobs, or that have regular disturbances in earnings, e.g. 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. These events are often the first step in the cascade

of trouble that can end in foreclosure. Homeowners find themselves needing to resolve all of the problems in the cascade. The multiple demands for resources and coping complicates decision making, increasing the chances that trying to solve one problem will make another worse and put the homeowner in a state of stress that makes rational decision making difficult.

**Because mortgage delinquency occurs within the context of other problematic life circumstances, financial difficulty and other life problems—even small ones—play against each other in a process that results in a cascade of ongoing financial struggle and other crises.** The root causes of delinquency for many focus group participants are tied to typical life course events like having a new baby, getting divorced, becoming ill or injured, or the passing of a loved one. These events are often associated with both up-front costs as well as long-term effects on the stability of the household economy. When children are involved, missed child support payments can be enough to start a cascade of financial trouble and prevent a household from ever balancing their budget:

***“I tried to do everything I could for my kids. You know, you want to give them everything you can. And child support would come; sometimes it wouldn’t, so that would put me in a bind.”***

For many of our focus group participants this kind of event would start a chain reaction toward delinquency and foreclosure. Seemingly small amounts of money, many times less than five hundred dollars, started people being behind on their mortgages and would then snowball into much greater financial trouble. For example, participants reported being forced to choose between paying for car repairs or their mortgage—choosing to fix the car would keep them behind on the mortgage, while not getting it fixed would result in missed work and hence lost income, and put them further behind on the mortgage. The emotional responses to financial struggle can also lead to worsened financial circumstances, e.g. by causing marital problems leading to divorce. Even seeking assistance for delinquency can complicate the problem because taking time off to fill out forms and go to appointments can result in lost income. Moderate financial cushions of less than five thousand dollars could provide some protection against these initial income shocks that lead to delinquency.

**Job loss and other reductions in income have been well documented as trigger events for mortgage delinquency and foreclosure. Low-income homeowners may be particularly susceptible to these kinds of income shocks because of the kinds of employment available to them.** While homeowners reported widespread issues related to job loss and reductions in their income we also found that low-income homeowners face somewhat regular disturbances in their earnings. Several participants described this kind of situation: *“We’re back on track with our mortgage, but we’re still struggling financially because his job still lays him off and on”; “I had two full time jobs and a part-time job. I was a night audit... and I worked in patient accounts in the medical field...Then the little part-time job I had was for an inventory company...it’s just, it’s the rat race.”* Though fluctuation of income was generally something they could expect, they were often unsure of exactly how long their periods on unemployment might be: *“I work at temp services which you might work for a while, you might not.”* This kind of job market interferes with the ability to save for emergencies. When periods of unemployment run longer than is typical in these fields, the financial balance is tipped and a cascade of trouble can begin. Furthermore, those who work in manufacturing, retail, and commission-based jobs, as many low- and moderate-income people do, find that their job security is dependent on the stability of the economy overall.

**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.** This was especially salient when health problems came into play, whether a personal illness or injury to the mortgage holder or that of a spouse, child, relative, or close friend. Providing emotional and material support to others was associated with lost income due to taking time off of work, or diverting funds from mortgage payments to cover costs associated with health problems. The cost of medication and medical care in combination with income shocks for those too ill to work also took its toll. Participants frequently described having to choose between taking care of themselves or fulfilling their obligations as a spouse, parent, friend, or family member, and paying their mortgage on time. However, bundles of problems are not restricted to health issues.

**Homeowners' stories of having bundles of problems also illustrated how the penalties associated with falling behind on debt contribute to the snowballing effects of financial trouble.** Sometimes these fees are so high that they put a homeowner behind for months and have a negative impact on their credit score. This would then lead 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. When homeowners have very high interest rate mortgages they may find hope in the prospects of refinancing for a lower rate and possibly consolidating their debt. However, their damaged credit makes it more difficult for homeowners to do so. We also found that sometimes efforts to refinance and consolidate debt make matters worse if 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?*

**Catching up**

Over and above their help seeking efforts homeowners employed a number of strategies to catch up on their mortgage payments. Bringing in additional income through extra work and adhering to a strict budget can be effective in this area. However, these strategies, and borrowing money from family, often had negative consequences like creating additional strain on low-income families. Looking to the financial community to get caught up via payday loans, refinancing, and home equity loans was frequently associated with negative economic consequences because homeowners make such decisions under emotional and financial strain. Another, related issue is the difficulty that homeowners report in trying to make partial payments. When partial payments are sent back to the borrower the total sum of money that the homeowner will have to pay at once to “*get current*” grows. Given the economic position of low-income homeowners who participated in these focus groups, the prospect of gathering multiple months' worth of mortgage payments at once is slim, so the lack of clarity around partial payments inches people further into arrears, making it more difficult for them to get caught up.

**By far the most common thing that people did to catch up was taking on extra work.** Many people took on second or even third jobs, such as paper routes, cleaning homes, part-time retail jobs, or catering. Others worked overtime at their existing jobs, and still others relied on informal work such as doing hair, having yard sales, or finding and refurbishing tools and furniture and selling them on eBay, e.g. “*You know, try to make a way of continuing to invest in things I see real cheap, and then I fix them and sell them. So that's kind of like an additional kind of income.*” Of taking on another job, one homeowner commented on the increased strain she experienced:

*“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, I'm saying to myself, that little \$65 extra a week is really stressing me out.”*

**Focus group participants frequently re-evaluated their budgets when they got behind on their mortgages,** and instituted cost-cutting measures to divert more money toward paying the mortgage. One woman remarked: “*How I got out of it was I realized I had to get away with it, and cut my spending down, and look for some places in my budget, so I could make some wiggle room*”. Many people reported doing things like cutting off their home phone lines and relying on their cell phone; getting rid of internet access; clipping coupons; being more aware of their gas usage; installing insulation to save on heating costs; turning off the cable; looking for free family entertainment and activities; and avoiding going out to movies or restaurants. Those who did this expressed a sense of pride and accomplishment at their efforts to earn additional income and their ability to save money by being thrifty, like the man who reported saving over one hundred dollars a month on energy costs after “*buying insulation and throwing it down...when we had that heat wave last summer I was paying \$425 but now my electric's \$307...I think I'm cheating them.*”

The fact that some homeowners expressed pride about saving money and bringing in extra income, while others emphasized the strain it created on them and their families may be indicative of the

different ways homeowners frame the problem of delinquency. The former may take on more personal responsibility for resolving the situation, while the latter may feel less control over the problem despite their efforts to resolve it.

**Homeowners also turned to family members for loans** to get caught up on their mortgage payments. Those who did so often felt ashamed and guilty for doing so; these feelings might be accentuated among the people that we spoke to because many of them come from low-income families with few resources. The decision to ask for financial assistance from family members was often fraught with difficulty and the urge to avoid being a burden to one's family. For instance, one participant said:

***“I finally broke down and talked to family to try and help get some money together...I’m kind of a proud person, I don’t want anyone else to help me, if I can at all help it.”***

**When faced with the loss of a job; reduction in household income due to divorce; or medical bills, many homeowners took equity out of their home, their biggest asset, in order to avoid foreclosure.** Hence, people made financial decisions with serious consequences during a time in their life that often included not only emotional stress and ill health, but also the stress brought on by not being able to fulfill their financial obligations. Many of these people ended up with extremely high interest rates on their refinance loans; with adjustable-rate mortgages that they could not afford; and with the equity stripped from their homes. We noticed a common link between making this kind of decision under emotional duress and financial strain, and being the victim of a predatory lending scheme. Predators prey on people in a fragile emotional state; many people accept loan terms without understanding the consequences until it is too late. Strategies like refinancing and home equity loans as well as payday loans and taking money out of 401K accounts illustrate the lack of financial options available to low- to moderate-income homeowners, whose financial assets are most often concentrated in their home equity. In particular, payday loans and refinancing frequently resulted in further financial difficulties.

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

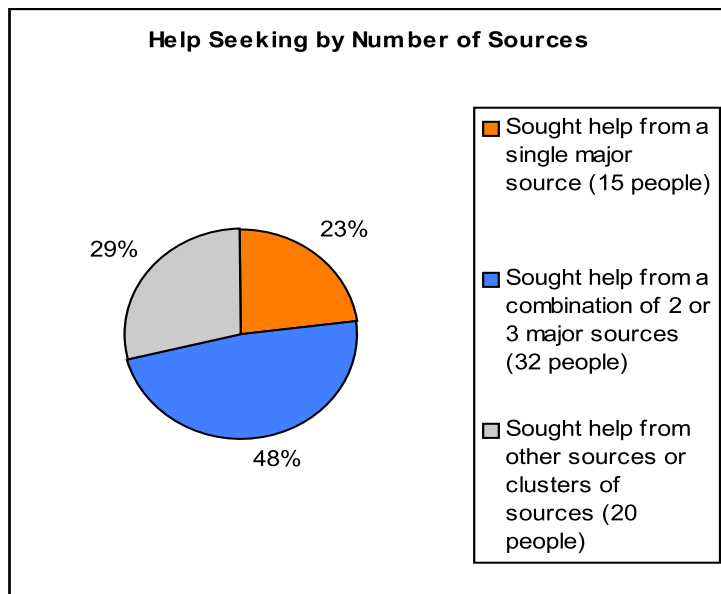
#### **Help Seeking**

In this portion of the report we will discuss the many different ways that low-income homeowners have sought help for mortgage delinquency, and their experiences with these different help sources. Later we will outline the elements of existing help sources that homeowners have found effective as well as how lenders, nonprofits, and the government can better assist them.

One of the intended goals of this study was to understand why and how some low-income homeowners seek help when they are behind on their mortgage payments while others do not, even when they are at risk of foreclosure. However, both in recruiting participants and conducting focus groups **we encountered very few homeowners who had gotten behind on their mortgage payments and not sought help for this problem.** The people we spoke to sought help not just from one, but from many sources, often until they had exhausted themselves and the resources available to them.

We found that delinquent homeowners sought help from:

- Their municipality
- Social service and social welfare agencies
- Their lender
- Other lenders, real estate agents, and mortgage brokers
- Lawyers
- Family and friends
- Credit and debt counselors
- Faith-based organizations
- Community-based homeownership education organizations



The questionnaire completed by focus group participants shows that almost half of respondents sought help from multiple sources. The most popular combination of sources was the lender along with a friend or family member. Around a quarter of respondents sought help from only one source, with the lender or friends and family being the most often mentioned source of assistance. Close to a third of respondents sought help from other sources or clusters of sources.

Thus the problem is not always one of reaching “non-help seekers” who risk losing their homes to foreclosure; it is also an issue of understanding the multiple strategies that homeowners employ in an effort to deal with crises and strains in their lives, *and* to save their homes. However, the closed-ended questionnaire did indicate that lenders, and friends

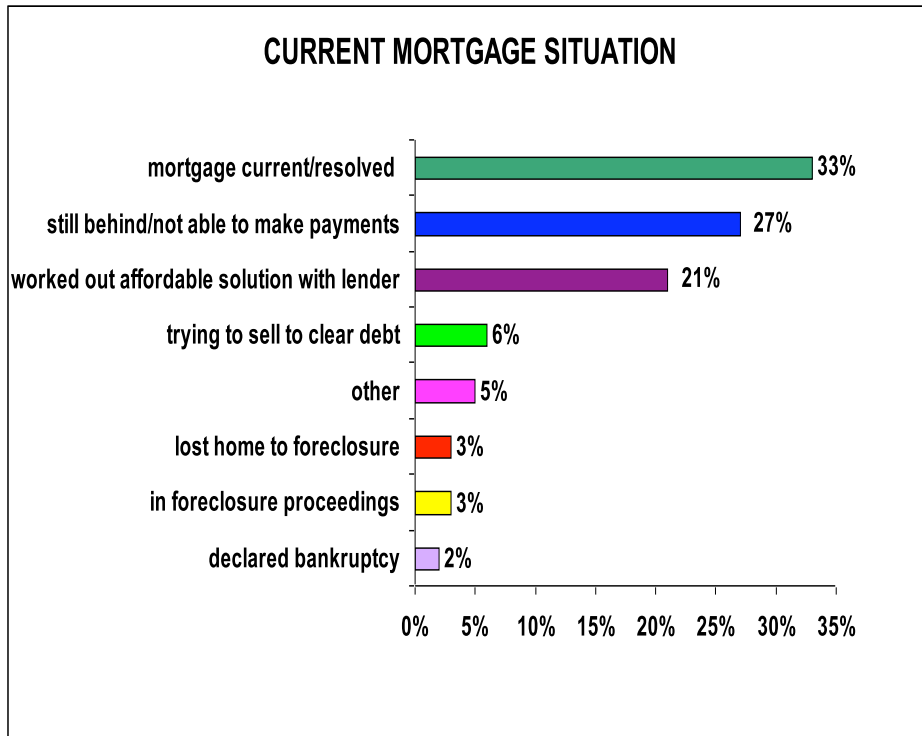
or family members were far more popular sources of assistance on their own and in combination than nonprofits were alone or in combination with one’s lender or friends or family. These results indicate that nonprofits may face particular challenges in being perceived as a source of help for mortgage delinquency and foreclosure avoidance.

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 crisis 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. Often, early in the crisis homeowners would foresee a problem paying their mortgage but their efforts to work with their lender to resolve the problem preemptively were usually unsuccessful. At the same time they would invest most of their energy in trying to increase financial resources and access to needed goods and services (food stamps, jobs, health care etc.). The precarious economic position of households often worsened as the process of help seeking unfolded, increasing the emotional as well as financial strain on households. Participants made it clear that the two-pronged approach, itself an attempt to find a solution, is one that often serves to complicate the financial, material, and emotional consequences of mortgage delinquency.

### 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 made statements such as:

***“I finally gave up on trying to contact (a nonprofit counselor) and then decided to myself that all that was probably a scam.”***



Help seeking does not always lead to help seeking fatigue--more than half of survey respondents indicated that after going into delinquency their mortgage was current or they had resolved the delinquency, or that they had been able to work out an affordable payment plan with their lender. Nevertheless, around 40% of respondents indicated that they were experiencing ongoing difficulty and unable to make payments, trying to sell their home to clear their debt, were in foreclosure proceedings or had already lost their home to foreclosure, or had declared bankruptcy. Such individuals may experience more help seeking fatigue.

### Experiences with their Lender

**Homeowners see mortgage delinquency as a short-term or temporary problem** that does not detract from their intention to honor their agreement with their lender. The homeowners we spoke with had a clear desire to be able to resolve their delinquency with their mortgage lender. They believed that they entered into a long-term agreement with their lender, and wanted to work out the problem so that the relationship would be a successful one for all parties involved. The focus on debt collection and penalties suggested to them that the lender was likely to foreclose without offering any other options. Although participants hoped to work out the situation with their lender, the lack of workout options offered in the first three months of delinquency led participants to feel that their lenders did not trust them. One participant remarked of this situation, *"I have this mortgage for 30 years. Where am I going?"* Still, some participants were able to work with their lender to either cure their loan or resolve to sell their homes without regret, most likely when their loans were in more serious arrears and they were assigned to loss mitigation units.

**Homeowners' beliefs and expectations about their mortgages influence their decision about contacting their lender for help when they are delinquent.** It is important to emphasize that the single term "lender" can actually refer to a network of services, and we were not always able to ascertain whether participants were in touch with the loan servicer or the loan owner when they tried to contact their lender. Homeowners who did not contact their lenders believed that they could catch up with their payments. Because homeowners were attempting to solve the problems causing mortgage delinquency, some contacted their lenders as soon as they lost their job, missed work due to ill health, or lost another income in the household through death or divorce. However, at this point the contacts most often led to unsatisfactory interactions in which their efforts to work out partial payments or other plans to restructure their debt were rebuffed. The communications between lenders and borrowers at this stage did not lead to productive suggestions for preventing mortgage delinquency. The borrowers, already stressed by crises and efforts to solve multiple problems, often felt rudely treated and misunderstood. Most likely these contacts occurred with the collection agencies or departments whose main responsibility was to press the buyer for payments and to impose penalties for late payments.

That **many focus group participants contacted their lender before they had even missed a payment** further emphasizes the opportunity to prevent problems from reaching the most serious level. It also shows that often homeowners do want to solve the problem with their lender, and avoid getting behind if they can. 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, due to the fact that many people who are struggling to pay their mortgage payments are also struggling to pay other bills, a number of people used any funds they might have been able to put toward their mortgage on other expenses. While the majority of delinquencies self-cure before going to foreclosure, for some borrowers providing early workout options may help to prevent them from going into default and foreclosure.

**Some homeowners who contacted their lenders had positive experiences and felt positively about the outcome of their help seeking efforts.** These homeowners were sometimes able to work with their lenders to reach either a reasonable payment plan or a loan modification. In other cases, being in contact with their lender and reviewing their budgets in detail while exploring loan-curing options with the lender helped homeowners realize that their best option was to sell the home. These homeowners expressed some sadness about leaving their homes but also recognized that selling the home before going into foreclosure would protect their chances of owning another home in the future, and thus felt satisfied about their choice to sell. Where people described having these positive outcomes they also described feeling respected by the staff they spoke to on the phone: *“My lender was very compassionate. They sent me letters saying that they wanted to help me save my home.”*

### **Experiences with Social Services, the Religious Community, and Other Nonprofit Organizations**

In addition to contacting their lenders, delinquent homeowners sought help from social welfare agencies, municipalities, religious organizations, and nonprofit organizations. After speaking to homeowners who have sought such services, it appears that many people contacted these sources of assistance after they have contacted their lender and before they contact a nonprofit, if they did so. Trying to access assistance from social welfare agencies and similar organizations often left homeowners feeling frustrated, but they also sometimes led homeowners to find much needed resources. Help-seeking exhaustion from navigating potential resources may prevent homeowners from seeking help through a nonprofit, where they may be able to receive assistance in negotiating a workout with their lender as well as foreclosure intervention counseling.

**Homeowners turn to social services for short-term public assistance if they are out of work, or need food stamps in order to divert more of their income to their mortgage payments and other debts.** Some homeowners also look to social welfare agencies or municipalities for emergency funds to cover utility bills or mortgage payments. Other homeowners find out that they are eligible for aid programs only by coincidence, for example:

*“So we were eating bread and water for a long time and then I went to the utility company to get the emergency one-shot deal...and then they said ‘do you need food stamps?’ and I said ‘I don’t think I qualify because I own my own home.’ She checked and said ‘You can get \$300 in food stamps right now.’ I started crying right there.”*

Homeowners who received help from such agencies expressed that this helped them direct more money to their mortgages and address their delinquency.

**Seeking financial assistance through social welfare and other government agencies is a process that left homeowners frustrated, fed up, and exhausted** due to the difficulty they had in navigating different agencies, application requirements, and securing aid. A number of homeowners felt that the benefits of help from social service agencies rarely outweighed the difficulty they endured to get it: *“there is really no help especially if you’re a single person”*; *“I think they should... change the way they qualify somebody for getting something.”* Furthermore, many people find that the time and energy required to fill out forms, make appointments, and stand in line may complicate their financial trouble. Because most social service agencies keep regular business hours people may have to take time off work to seek help from such sources, thus losing much-needed income:

***“You have to wait until you’re next in line and there’s like 40 people ahead of you and I work two jobs. I mean I’m losing income to get that help...They’re there to help but at the same time they work against you.”***

**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 or for homeowners without children: *“I’m still trying to find some help...If you don’t have any kids there’s no help.”* Homeowners who were struggling to meet their mortgage payments, but who exceeded the income limits for public aid programs 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!’”*

**Homeowners also turned to religious organizations for information and emotional and financial support.** Homeowners relied on their faith to see them through their financial struggles and renew the energy and hope expended in their efforts to avoid foreclosure. Some participants also depend on this network for small loans and food baskets. Other homeowners have been able to pursue emergency funds through organizations like the Catholic Commission on Housing.

**Depending on their location and circumstances, homeowners also seek financial assistance, legal aid, and information from a wide variety of nonprofit organizations and government agencies.** For example, homeowners who believe they are a victim of a predatory, fraudulent, or abusive loan often turn to organizations for consumer protection and housing rights, e.g. Don’t Borrow Trouble at Beyond Housing in St. Louis, the NYC Commission on Human Rights and the Parodneck Foundation in New York City. We spoke to a number of focus group participants who were in the process of suing predatory lenders or getting their loan terms changed thanks to such organizations, and who expressed a great deal of gratitude for the help that they received. Other homeowners have been able to secure emergency funds through organizations like the Urban League; however, access to emergency funds is rare and usually governed by a strict application process and many regulations, meaning that few homeowners are able to secure such funds. A participant who had been diagnosed with cancer was able to secure emergency funds because of her unfortunate but unique situation, though she noted that the funds covered only the mortgage itself and not the taxes and insurance.

### **Experiences with Lawyers**

**Homeowners who have missed mortgage payments seek help from the legal community to declare bankruptcy or because they believe they are the victim of a predatory loan.** A number of people we spoke to declared Chapter 13 bankruptcy (although only one survey respondent did so; not all focus group participants completed the optional survey) believing that it would help them to avoid foreclosure and keep their homes. While this is true in some cases, filing for bankruptcy often comes with unintended negative outcomes. These include spending money on legal fees that could have been directed toward their mortgage; damaged credit; and being unable to later refinance a mortgage. 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 accrued hundreds of dollars in late fees on his mortgage and was unable to pay the entire sum in addition to his mortgage payment all at once, and was unable to come to an agreement with his lender about how he could get caught up. He 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. Other homeowners who suspect they have been the victim of a predatory loan also seek legal assistance but have a difficult time locating legal aid resources because pro bono service providers are overwhelmed with people requesting their help.

### **Experiences with NeighborWorks Organizations and Similar Nonprofits**

For homeowners the relationship with their lender is primary, even if they received pre-purchase education. This reinforces the need for homeownership education organizations to reach out to pre-purchase clients after they become homeowners and to others who may be at risk of foreclosure. 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. This made it more likely that by the time a delinquent homeowner reached a nonprofit they had already spent a good deal of time searching for help in other places. Therefore foreclosure intervention counselors are sometimes brought into cases when there is little time left to prevent foreclosure; sometimes they also have to correct errors made in the course of other efforts by the homeowner to resolve their financial problems.

**Even among those who received pre-purchase counseling and education from well established nonprofits, there was little awareness about the availability of post-purchase services or foreclosure intervention assistance.** Homeowners stated that personalized outreach from nonprofits would encourage them to seek help for financial trouble. Some nonprofit professionals are able to engage in this kind of outreach, such as those who have gone to clients' homes and knocked on the door, or left flyers indicating their concern and willingness to counsel. Professionals were troubled by their lack of funding for advertising to compete with ads (some by predatory lenders) and outreach by lending industry professionals encouraging homeowners to refinance, take equity out of their home, or sell if they are having trouble keeping up with payments: *"They have the advantage over us because they have people out there door to door."* Homeowners also cited the time and research it takes to figure out the options available to them as a barrier to seeking third-party assistance from nonprofit organizations.

**The letter that some delinquent homeowners receive from their lenders recommending a nonprofit appears to be effective at connecting homeowners to community-based organizations that are also HUD-approved counselors.** Many professionals reported that they come into contact with delinquent homeowners via this mechanism. This suggests that lenders exercise a good deal of influence over the sources of third-party assistance that homeowners seek. However, homeowners who initially expect to work out the situation with their lender often find such assistance only after their situation has snowballed, making it difficult for nonprofit professionals to help them effectively. Thus if lenders were to connect homeowners with nonprofits and other legitimate sources of counseling and education (e.g. CCRC, The Human Rights Commission in NYC, Waco Community Development Corporation) earlier in the delinquency process, such organizations might be able to offer more options to homeowners who are behind on their mortgages.

**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 are able to offer such assistance, and those that are able to can only make funds available one time for families that have an existing loan with the organization. It was the overwhelming sentiment of the nonprofit professionals we spoke with that it is unrealistic for homeowners to expect emergency funds. While it may be unrealistic given the budgets of these organizations, professionals also expressed that *"handouts aren't the answer"* to keeping families in their homes. However, homeowners are keenly aware of the tension between self-sufficiency and personal responsibility on the one hand, versus the need for assistance on the other. In more than one focus group they suggested that one way to balance this tension would be for community-based homeownership education organizations to require education and counseling in or-

der to access emergency funds. One participant recommended *“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.”*

**A central tactic employed by foreclosure intervention counselors is serving as third-party assistance to negotiate an affordable repayment plan with the lender on behalf of the borrower.** Homeowners expressed mixed opinions about the value of this tactic. Some appreciate that community organizations are able to leverage a different arrangement with the lender than they could on their own, and in fact expect them to have access to different information and options than homeowners have. Other homeowners feel that counselors who arrange a workout on their behalf are doing essentially the same thing that they did themselves, and resent that they had to seek third party assistance in order to get results. One participant expressed her frustration: *“I mean the guy did the exact same thing that I was doing; the exact same thing!”* Although professional counselors and educators said they spend considerable time and effort on understanding the options available with different lenders, and on negotiating arrangements that will help homeowners to get caught up and allow them to keep up with other expenses as well, they have inconsistent success with these efforts. While seeking assistance for mortgage delinquency from a nonprofit can result in working out an affordable payment plan for homeowners who were previously unsuccessful in negotiating with the lender themselves, some homeowners felt that the workouts offered were unrealistic for their budget: *“If I don’t have any money now how can I keep giving you extra money?”* Although this group did want to honor their loan agreement they felt that they would benefit more from a temporary forbearance than a payment plan given their financial circumstances.

Findings regarding the difference between homeowners who sought help from nonprofit and those who did not are summarized in the table below:

<b>People Who Sought Help From Nonprofits</b>	<b>People Who Did Not Seek Help From Nonprofits</b>
Were often referred by their lender, social welfare agency, or another organization	Hope/ think that they can get the money together to get current on their mortgages
Expect emergency funding	Want to work out their delinquency with their lenders
Are less likely to experience help seeker fatigue if they are referred early in the delinquency	Experience help seeker fatigue
Happened to find an advertisement for a nonprofit organization	Are unaware that nonprofit assistance is available

### **The Need for Thorough, Respectful, and Accountable Assistance**

**Many homeowners reported positive experiences with third party help—however, this was not the case for all.** Less than thorough handling of delinquency cases caused homeowners further financial damage, delayed them from acquiring help, and had a negative emotional impact on people already in extremely stressful situations. Given the fact that many homeowners are not in touch with a nonprofit or similar organization until they are two to three months behind, they require efficient assistance and/or referrals to other resources available to them. Some homeowners found this aspect of foreclosure intervention services the most frustrating. For example, some homeowners reported making contact with a counseling agency to get assistance in arranging a workout or loan modification and completed the initial steps such as filling out paperwork and writing a hardship letter, only to not hear back from the agency for months. This may have complicated their situation by narrowing the options available to them as time passed. Some homeowners in this situation eventually contacted other organizations for help, only to find that the situation had progressed to the point where it was not possible to save their homes. Homeowners also reported falling behind on their mortgages and contacting nonprofits for help and being turned away because they were unemployed: *“I had been told by them that you had to have income, for them to help you. And I had no income... I’m older, and so finding*

*another job was a lot more difficult*". These experiences led some help seekers to belief that nonprofit organizations are for-profit scams.

### **Predatory Lending, Abusive Lending, and Fraudulent Practices**

Both homeowners and professionals told us about the many kinds of abusive, predatory, and fraudulent lending practices they have experienced and seen. These take place during the buying and selling of homes, seeking help for delinquency, financing home repairs, or in the refinancing of a mortgage. Understanding these practices helps explain both how some people become delinquent and how some choose to address their delinquency. Especially disconcerting is the growth of "rescue fraud" where predators target those already delinquent on their mortgage payments and tip them further toward foreclosure.

### **Predators Among "Us"**

Many lending practices are legal, but when used exploitatively or inappropriately they can contribute to delinquency among low-income borrowers. Professionals and homeowners shared a particularly troubling aspect of such lending practices: the fact that predators are often culturally embedded in the communities they affect. Part of why their schemes are so pernicious and effective is that they use these affinities to easily gain the trust of those they victimize. Research in behavioral economics has found that people are more trusting and responsive to financial dealings with people who they perceive as being similar to them.<sup>10</sup> In communities of color this may be compounded by historical evidence and popular perceptions that the lending industry is biased against them. In New York a nonprofit professional who wanted to gain more information about predatory lending practices happening in her organization's neighborhood came into contact with such a lender and was taken to a picnic in a local park sponsored by this lender. She was outraged that they "*came over her and had a picnic right in the heart of our community*". *And they did.*"

### **How Schemes Unfold**

Focus group participants related a number of exploitative, possibly predatory and/or fraudulent lending practices that they have encountered. In many cases, homeowners felt that one stop shops; "bait and switch" tactics with loan interest rates; no documentation loans; and contractors who provide referrals to mortgage brokers played a large role in their becoming delinquent and, in some cases, losing their homes.

**One-stop shops** are places where an array of housing professionals such as real estate brokers, mortgage brokers, appraisers, and lawyers work together, and through their collusion sometimes defraud homeowners. In our focus groups we learned about people losing their homes and having their credit destroyed after attempting to do business through one of these offices. One homeowner remarked that "*Those one stop shops are the worst...because they do not have your interests at heart.*"

**No document loans** are mortgages disbursed based on limited documentation. In some cases the little documentation associated with this kind of loan is falsified (either by the broker or the borrower, or both) to make borrowers appear more credit worthy than they actually are. Many times the fraudulent underwriting is only discovered after a borrower becomes delinquent. Professional foreclosure intervention counselors reported that sometimes it seemed as though clients who had these loans were unaware that fraudulent statements had been made about their income and assets. We also heard from professionals that when borrowers consciously participate in this fraud they are very hesitant to seek help or report the brokerages they worked with for fear of being prosecuted.

**Homeowners are sometimes also brought into contact with predatory lenders when they need a home repair loan.** In these schemes a contractor matches a homeowner who needs a repair that they cannot afford with a lender who offers them a small home equity loan with terms in the contract that make the loan nearly impossible to pay back or that are just aggressively expensive. We also encountered a number of homeowners who signed **a mortgage with a higher interest rate than they were initially informed of** due to pressure from the broker or simply because they did not want to lose their down payment and were unaware of their rights at closing.

In addition to these lending practices, we also encountered homeowners who had been victimized when they were targeted by predators that 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.

**Deed thieves** who defraud homeowners out of their homes target homeowners who may be experiencing financial difficulty, often knocking at their door and empathetically offering to help them fix their financial troubles. This person offers to refinance the mortgage of a homeowner who is delinquent or who is looking to cash out some of their home equity. In the small print of the refinancing contract the owner unknowingly turns their deed over to a straw buyer. In such cases the straw buyer appears to have no interest in the property but is paid off by the deed thieves for lending their name and financial information to the scheme.

Some focus group participants explained how when they fell behind on their mortgage they were contacted by **predators pretending to be help providers** who charged fees for assistance they never provided and resulted in drawing the homeowners deeper into delinquency. In one case we heard of a group working with a well-known lender, who would send out notices with their delinquency messages asking borrowers to contact this group for help. The group would then charge clients up to \$900 and not provide assistance. A homeowner who had fallen for this scam 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 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, we just found out.’”*

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

### **Helping Homeowners Get Effective Assistance**

Participating in a group discussion about mortgage delinquency allowed professionals to voice concerns about the efficacy of financial education in preventing mortgage delinquency, default, and foreclosure. They cited structural and technological issues within the lending industry, messages from the media, and lack of funding for nonprofits as the main barriers to the effectiveness of this kind of education. In addition to these issues low-income people face economic marginalization due to stagnant wages and underemployment, conditions that may serve as barriers to meeting the demands of homeownership. We also found that some of the assumptions held by professionals about delinquent homeowners can interfere with the effectiveness of financial education.

Homeownership education fulfills the roles of building a relationship of trust to promote successful and sustainable homeownership; providing a third-party perspective that can address a broader set of issues than more narrowly defined financial counseling; and informing important decisions related to finances and homeownership.<sup>11</sup> This is accomplished by counseling agencies with mechanisms that include skills training, understanding the implications of financial status, improving decision making by providing information and guidance, and providing information about other available assistance.<sup>12</sup> Although the success of counseling may be limited in the cases of advanced delinquency and when the financial issues involved are sudden or beyond the homeowner’s control, homeownership counseling can still be effective in these cases by connecting people to other resources, exploring options, and altering budgeting and spending practices.<sup>13</sup> Despite the limitations and challenges to the efficacy of homeownership education and counseling raised by professionals in our focus groups, community-based organizations can offer programming and services that address the broader context of sustainable homeownership, which is not limited to avoiding delinquency, default, and foreclosure and includes issues such as quality of life and community building.<sup>14</sup>

**While arguing for the importance of financial education, many professionals raised doubts about the ability of first-time homeowners to grasp the intricacies of the**

**mortgage lending industry, which even they have some difficulty understanding.** The proliferation of loan products that came with the deregulation of the lending industry, the growth of the secondary mortgage market and mortgage-backed securities, and technological innovations like automatic underwriting have led to a more complex, quickly-changing lending industry. Some professionals feel that low-income neighborhoods of color are being targeted by inappropriately used loan products, e.g. 80/20 loans. Although they work to educate homeowners thoroughly about shopping for the mortgage that is right for them, nonprofit staff also felt that the lending industry should be subject to more stringent regulation with regard to the kinds of loan products they use and who they extend them to, rather than the onus being solely on borrowers to educate themselves.

**Nonprofit organizations that provide financial education also found themselves up against the aggressive marketing of loan products, the infiltration of low-income communities by predatory lenders, and messages from the media, e.g. about buying a house with no money down.** Professionals lamented 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”*. Nonprofits also lack adequate staffing to fill the educational needs of their communities, which has led some organizations to be reluctant to initiate outreach and education programs. Such organizations are doubtful about their ability to meet the needs of their community for post-purchase, delinquency assistance, and foreclosure prevention programming. In the eyes of professionals, the efficacy of financial education is compromised by the tide of messages that their communities receive about homeownership and managing their finances, and the lack of sufficient funding to support outreach, staffing, and programming to compete with such messages.

**Low-income homeowners may face a more precarious risk posture than other homeowners due to underemployment and stagnant wages.** While nonprofit homeownership education urges clients to create reserve savings for home repairs and unexpected emergencies, in practice this has proved elusive for most of the homeowners we spoke to. Focus group participants cited the difficulty of saving for emergencies given the rising cost of gas, electricity, and property taxes and homeowner’s insurance, with wages incommensurate with such costs, such as the man in Waco who stated that he *“just got a raise of 2.3 percent, which is great, but it doesn’t do anything when your insurance goes up 4 percent”*. Indeed, while real average wages for most of the American work force have risen by 2% over the past year<sup>15</sup>, after years of missing out on economic growth, most workers and their families have not seen the kind of income gains that the highest earners have made. For example, while labor productivity in the non-farm sector rose by 18% from 2000 to 2006, the weekly wages of most workers rose by just 1%, in the same time span.<sup>16</sup> Meanwhile, the savings rate in the U.S. is less than

***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”***

zero, and the rate of bankruptcy filings exceeds that of the rate of divorce filings.<sup>17</sup> The widespread lack of savings could mean that those with little surplus income are unable to develop a reserve fund for costly repairs or other emergencies, thus heightening the risk of financial difficulty. Furthermore, although the economy has been strengthened in some ways, sectors of the job market occupied by low- and moderate-income people, e.g. retail, manufacturing, are cutting jobs. Focus group participants acknowledged that they wished they had saved more before getting into homeownership, yet noted the difficulty of doing so due to their lack of surplus income. This difficulty is only heightened by the unstable work

arrangements faced by many low-income people, with jobs that are vulnerable to downsizing and outsourcing when the economy slows. Education is valuable, but may need to better take into account the particular economic circumstances and income shocks to which low-income homeowners are vulnerable. Even with these strategic improvements, education simply can’t protect against some effects of economic downturns, such as the woman who went from earning \$50,000 a year working full time for the telephone company to being downsized to a half-time position earning \$24,000 a year.

In our focus groups we found that **professionals and homeowners had conflicting points of view about homeowners’ budgeting habits**. Since budget counseling is a substantive

area of post-purchase and foreclosure intervention counseling, it is important to explore these tensions and how they may affect the counseling and education process. There appears to be a discrepancy between how professionals and homeowners understand the issue of mortgage delinquency. Professionals emphasized that homeowners spend carelessly, excessively, and irresponsibly--“*Do you really need that cell phone?*”; “*You want to go on vacation, or you want to get your hair done every week, you’re the one that needs to determine what you can afford*”--and lack the ability to save money for emergencies and prioritize their spending. Whereas professionals express that “*These people have champagne tastes and they’re living on a beer budget*”, homeowners are concerned to point out that they prioritize their spending very carefully according to their bills and other needs--“*I’m not a high maintenance kind of girl or anything like that...I don’t got champagne tastes with beer money*”. Personal values also figure into budgeting choices, e.g. the man who noted that his children might appear spoiled because they have computers, cell phones, and cable television, but emphasized that these were important mechanisms to keep his children on track: “*My daughter’s 19 years old, finished high school, ain’t pregnant, is going to college*”.

**Using a “one size fits all” budget counseling technique by advising all foreclosure prevention and delinquency assistance clients to cut back on expenses that may be frivolous from the counselor’s point of view but which are necessary from the homeowner’s results in frustration and disengagement on the part of the homeowner.** Some also perceive this approach to be insulting, such as the woman who related her experience of seeking mortgage delinquency assistance:

*“He told us ‘Get rid of your credit cards.’ I said ‘we don’t have credit cards. We never have. We stay away from credit cards.’ ‘Well get rid of your cable TV.’ We’ve never had cable TV ever and he’s going through telling me all this stuff to get rid of. We don’t have cell phones. We’ve never had cell phones ever. Well he’s telling me ‘you need to stop doing this and stop doing that and you know stop buying beer.’ We don’t buy beer ever. He was very rude... So the things that we have are the things we have to have and nothing extra. You know we go to the library and get movies because they’re free so we don’t go to movie stores and pay fees...We don’t do anything. So he’s telling me to cut out all this extra stuff and I’m like there’s nothing extra to cut.”*

**Sensitive and supportive budget counseling leaves lasting impressions on homeowners who seek help from nonprofits.** For example, the importance of improving and maintaining one’s credit score is an idea that has gained footing among many homeowners. However this has led some people to pay their credit card bills at the expense of their mortgage, without understanding the impact of mortgage delinquency on their overall credit. Through delinquency or foreclosure intervention counseling from a nonprofit, homeowners began to recognize the importance of paying their mortgage first, before other expenses. Another homeowner recounted how a post-purchase counselor photocopying every single page of a budgeting book for her demonstrated his commitment to help her keep her home.

**Approaching budget counseling with sensitivity, flexibility and individually tailored strategies is optimal.** It is important that professionals avoid judgmental assumptions about homeowners, because it may impede working with homeowners to understand how and why they prioritize their expenses in an empathetic way. This can result in misunderstandings between clients and professionals about the goals of counseling and how they can be achieved. One example of a nonjudgmental approach to budget counseling comes from a nonprofit in an area where many people engage in tithing at their local church. The organization understands that despite financial difficulties, some homeowners need to fulfill these other responsibilities, and does not push them to cut this expense out of their budget. Yet many nonprofit organizations remain critical of expenses like cell phones and buying school clothes and supplies for children. Rather than urging clients to cut back on expenses the counselor may deem unnecessary, one organization counsels to save first, pay bills second, and to use their discretion about buying extras with the rest once they have set aside some reserve funds and paid all of their expenses. This approach delivers important points about creating a reserve for emergencies

and unexpected expenses, and encourages homeowners to budget for extras and treats while respecting their judgment about what they spend their money on.

**Overall, thoughtful and compassionate financial education has the potential to have lasting impact on low-income homeowners.** Nevertheless, its efficacy may be limited by lack of economic gains among lower-income people overall; the complexity of loan products and the workings of the lending industry; the need for funding for advertising, staffing, and programming at nonprofits; and “one size fits all” budget counseling. Furthermore because financial difficulties occur in the context of other life problems and circumstances that affect the entire home and can also encompass one’s social network, it may be important to deliver financial management education in a variety of diverse venues such as schools of all levels and nonprofit organizations that provide general social services as well as more specialized organizations that target particular populations or geographic areas.

### **The Need to Encourage Sustainable Homeownership**

In the United States, homeownership is the prime vehicle for wealth accumulation and a key-stone of obtaining middle-class status.<sup>18</sup> Homeownership is also thought to be a measure of neighborhood stability. Owning a home affords more control over one’s housing and has been linked to increased housing satisfaction and stability. Thus homeownership holds great social, cultural and economic importance for Americans. Yet rising levels of foreclosure, especially in low-income neighborhoods of color, raises questions about the push for homeownership among nonprofit professionals. Counseling professionals feel conflicted about encouraging financially precarious families to become homeowners, yet recognize the value of ownership as a means of securing affordable housing while building wealth.

### **Institutional Emphasis on Increased Homeownership**

The 2004-2005 survey found that NWOs were successful in their goal of making homeownership more accessible to people of color and people with low and moderate incomes. However, we also found that nearly 30% of homeowners who bought their homes with assistance from a nonprofit and had financial difficulty after purchase did not contact their nonprofit for post-purchase assistance. As rates of mortgage delinquency and foreclosure increase throughout the US, nonprofits have had to create more post-purchase programming so they not only support people getting into homeownership but also help keep them there. Post-purchase services include home maintenance education, emergency repair funds, and foreclosure intervention counseling. During the focus groups some staff expressed that they felt an institutional emphasis on getting households into homeownership may detract from funding post-purchase programs to support maintaining homeownership.

### **Realistic Expectations About Ownership**

**The financial strain faced by many of the low-income homeowners we spoke to once they bought their homes calls attention to the need for educators to rethink how they prepare for the unexpected costs associated with homeownership.** While NWOs prepare people for homeownership by teaching them the steps of buying a house, how to shop for a mortgage, and how to live on a budget, once they have bought their homes many of these families may still live paycheck to paycheck. The periodic spikes in the costs of ownership from taxes, utilities, and repair challenge these homeowners. While owning a home affords families the ability to accumulate wealth as they build equity, according to focus group participants this may be their only financial reserve. For many homeowners not having reserve savings was something they said they regretted and wished they had done differently. While both building credit and savings are part of nonprofits pre-purchase education we recommend that these organizations consider also requiring homeowners to accrue reserve savings before buying a home or instituting matched savings programs.

*“I just want to get rid of all the burden”*

### **When Things Go Really Wrong**

In some cases trying to achieve and maintain the American dream becomes a nightmare. In homeowner focus groups **some of those who had gone through mortgage delinquency and foreclosure were saddened to lose or leave their homes, still others were relieved.** The experience of struggling financially to keep one’s home is so stressful that some delinquent homeowners

chose to sell their homes and happily returned to renting- “I’m to the point where, you know, I want to get caught up so I can just sell the house and live in an apartment.”; “I just want to get rid of all the burden.”

Similarly, when asked to define success in foreclosure intervention counseling, professionals did not often respond that this was saving a person’s home. **Instead they said that success meant preserving a family’s ability to have a financially sound future, to live happily without burdensome debt, and to have housing security.** A professional in St. Louis describes her definition of success by the process she goes through with clients:

*“We establish two, or three, or maybe four goals that are attainable, you know, we sit across the table and really talk about what is it that you want to accomplish in the next six months...If they’ve met some of those other goals, maybe just maintaining or establishing that savings plan for the next hardship, or maybe it’s looking for that second job, maybe they want to get a weekend job or something that will supplement their income. But if they’ve attained some of those goals, then we also look at that and we say...this is pretty successful, this is pretty good.”*

Oftentimes being able to achieve success by these measures entails demonstrating on paper for homeowners that the debt associated with homeownership is unsustainable for them. Providing this “reality check” is an important step in helping homeowners move beyond the emotional reactions to their delinquency and to make grounded decisions about their finances.

## **V. BEST PRACTICES AND RECOMMENDATIONS**

### **Sustaining Ownership with Relationships**

Despite some caveats, homeownership continues to offer several advantages to low-income families, including building wealth through equity and social benefits like greater satisfaction with housing, increased civic participation, and fewer neighborhood problems.<sup>19</sup> **Rather than moving away from expanding homeownership to low-income families altogether, more effort needs to be concentrated on making ownership sustainable beyond purchase.** Cultivating long-term relationships with homeowners that are not limited to crisis situations, improving and expanding the continuum of services available after purchase, and developing partnerships with other parties benefiting from successful homeownership may be important ways that stakeholders can work to encourage sustainable ownership among low-income families.

In this section of the report we:

- highlight lending, education, and research best practices related to the issue of sustaining homeownership
- outline our recommendations for peer support programs;
- offer suggestions for messaging;
- and make recommendations for counseling agencies, lenders, and the government.

### **Best Practices**

What we learned from focus group participants reframes the problem of getting delinquent mortgage holders to seek help. Instead the question becomes how to get them to seek effective help and how to prevent the circumstances that lead to the threat of foreclosure in the first place. Foreclosure prevention programs most often employ information campaigns, financial education, and counseling and referrals. For example, Freddie Mac’s “Don’t Borrow Trouble” Campaign takes different approaches in different communities including public service announcements, advertising, educational symposia, financial literacy classes, grass roots outreach, loans for repairs, telephone counseling or referrals.<sup>20</sup> NeighborWorks America’s website offers a large menu of advice and assistance for borrowers in trouble.

All these approaches are promising but our research indicates that they must address the real context of homeowners' lives and fully communicate the array of options in clear and respectful language in order to be effective. Further, it is important to understand how homeowners in trouble go about seeking help, not just with mortgage delinquency, but with the problems that cause them to get behind financially.

Three examples of "best practices" illustrate how these considerations can improve foreclosure prevention efforts. These include foreclosure prevention programs of the Impact! Group of Duluth GA, Home Ownership Preservation Initiative (HOPI) in Chicago and programs like Launchpoint, which helps out of work borrowers find jobs.

**The Impact! Group** is based in Duluth, GA and was one of the nonprofits that we partnered with to hold focus groups. The Impact! Group is unique in that it provides a continuum of housing services ranging from the provision of transitional and emergency housing to rental housing and new home construction, and from pre-purchase home ownership education to post-purchase programming that includes home maintenance training, a foreclosure prevention program, and an "After the Storm" financial recovery program. This nonprofit community development organization also provides individual budget counseling *before* prospective homeowners enter group homeownership education classes. Because budgeting and spending practices are so intertwined with personal values, needs, and priorities this model for pre-purchase counseling and education may have more of a lasting impact on homeowners. This approach gives prospective homeowners an opportunity to discuss their personal budget issues and get individualized advice and education, which may facilitate their engagement in the group homeowner education classes.

**The Home Ownership Preservation Initiative (HOPI)** in Chicago is a public-private partnership launched by the City of Chicago, The Federal Reserve Bank of Chicago and Neighborhood Housing Services of Chicago in 2003. Thus far it has educated more than 4,000 Chicago households about foreclosure and the options available when difficulty in meeting mortgage obligations occurs. Through a process of 311 access, telephone counseling, one-on-one counseling, direct contact with lenders on behalf of borrowers, deployment of loan work-out strategies, and emergency grants or loans, 1,300 families have avoided foreclosure. To bring about this result, HOPI cross-trains counseling and servicing staff and holds workshops with lender partners to prevent buyer default. A faith-based outreach initiative has been put in place to combat mortgage fraud. In addition 330 vacant or deteriorated buildings were reclaimed for homeownership, preserving both the quality of neighborhoods and opportunities for affordable homeownership. When it is not possible to help homeowners avoid foreclosure, HOPI works with financial institutions' Real Estate Owned departments to increase the value of foreclosed properties that are otherwise often sold to investors and speculators at a loss to the lender. The properties are rehabbed and resold to owner occupants. Financially, this strategy has paid off in an estimated \$267 million in saving for the City of Chicago, residents, and HOPI lending partners.

HOPI has become a national "Learning Laboratory" to better understand the causes of foreclosure and how to prevent it. During every step of HOPI's development, information tracking, data gathering on the attitudes, experiences and behaviors of borrowers in trouble, interviews with all stakeholders, and program evaluation have been part of the project. Groundbreaking studies of the municipal costs of foreclosure, as well as the efficacy of counseling have been performed.<sup>21</sup> Since its inception, HOPI has not only worked toward short term objectives in Chicago, it has also sought to understand and define important strategies by the government that could decrease the risk of foreclosure. These include the creation of a nationwide loan origination, performance, default and foreclosure database that could be used to identify hot-spots for focus by partnerships modeled after HOPI but tailored to local conditions. At the neighborhood level, HOPI suggests getting rid of regulations that work against resolution, beginning programs to transfer properties to community-based developers, and developing a list of "loan-ready" borrowers for foreclosed properties. Recommendations for the mortgage industry include increasing investor accountability, working with agencies to make ratings more rational and accurate, and developing and disseminating best approaches to servicing subprime loans.

**LaunchPoint is a unique program offered by Novastar Mortgage Inc. that provides free job counseling and placement services for unemployed borrowers**<sup>22</sup>. This program is targeted to counteract loan delinquency and default due to underemployment and unemployment. Participants in LaunchPoint receive free resume assistance, job interview rehearsal, assistance finding job openings, and post-interview evaluations. NovaStar is currently working with Option One Mortgage on a test program to see whether LaunchPoint might be a feasible program for them to use with delinquent

borrowers. We have highlighted the LaunchPoint program as a lending industry best practice because it is an example of lenders developing innovative solutions to address not only default and delinquency but also the root causes of these financial problems.

### **Peer Support**

Focus groups afforded participants the opportunity to share knowledge, to learn, to provide support and assistance, and to discuss their problems with people in a similar situation. Homeowners frequently mentioned that they enjoyed this opportunity, expressing that they would appreciate more nonprofit staff that had faced these circumstances, and more programming that allowed them to connect with each other in a supportive group format. We recommend that nonprofits and similar community organizations work to develop peer support models for homeowners who experience financial struggle. This would also benefit nonprofits by helping them to more effectively serve those who are in need of their services, and to better reach informal, word of mouth social networks within the community.

### **Rationale**

The issues discussed during the focus groups included not only mortgage delinquency and other financial issues, but also many other topics like personal health problems, depression and anxiety, marital strife, and parenting. Given the highly personal and sensitive nature of financial difficulties, one of the initial concerns before we began conducting the focus groups was how to draw participants out to freely discuss the topic of interest. Luckily this was rarely an issue; participants quickly recognized that everyone present was dealing with the same problem and had circumstances similar to their own. For example, each focus group generally began with having each participant share how they initially got behind on their mortgage payments; by the time the fourth or fifth person was ready to tell about their experience they would often note similarities between what had happened to them and other people. Thus while we began this research with the goal of learning more about the experience of mortgage delinquency and help seeking among low-income homeowners, the focus groups also accomplished another, unintended goal: the opportunity for participants to share their problems and coping strategies, and lend and receive support amongst each other. This finding leads us to recommend that nonprofits and similar community organizations develop peer support and mentoring programs for their clients.

**During or after nearly every group, participants made comments to the effect that the experience had provided a forum for them to share their experience safely, and that they would like the opportunity to do so again.** For example, at the end of one focus group, a participant remarked that *“It’s just good to hear people talking about their mortgages”* and another participant agreed, saying *“Everybody’s situation is different, so it was good. It was a good experience.”* Informally, after the focus groups ended, some homeowners confided that they had disclosed more than they had intended to because the conversation helped them to realize that they were not alone in their problems. Others wondered if there would be more opportunities in the future to discuss the issue of mortgage delinquency with their peers. These examples demonstrate that while financial difficulties are indeed a personal issue that can be difficult to talk about, the homeowners that we spoke to also desire an outlet for the emotions, challenges, and triumphs that are associated with mortgage delinquency, and that they found group discussion to be an appropriate and useful outlet.

**A critical element of the success of the focus groups as a forum for peer support was the presence of “like others”.** Not only were all of the participants going through mortgage delinquency, but most of them faced similar economic (most had experienced underemployment and unemployment) and personal circumstances (many participants were single mothers); additionally a large proportion of each group were people of color. In a number of groups, participants noted the need for professionals who, in an explicit reference to the desire for nonprofit professionals who are African-American or Latino, *“look like us”*. Additionally many of the homeowners we spoke to expressed disbelief that people who had not been through a similar experience could understand their situation. The desire expressed among focus group participants for counselors and educators who face circumstances similar to these low-income, minority homeowners’ own reality is another basis of our recommendation for peer support groups and “mortgage mentors”.

### **Potential Benefits of Peer Support**

**A peer support model holds a number of potential benefits, both for struggling homeowners and for community organizations.** Widely used with a variety of populations (people with mental illness, diabetes, breast cancer; victims of bullying, women with postpartum depression), peer support may be defined as mutual “social emotional support, frequently coupled with instrumental support” offered among similar individuals to bring about social or personal change.<sup>23</sup> This approach allows participants to counter personal struggles by extending “support, compassion, empathy, sharing, and assistance”.<sup>24</sup> Indeed, the focus groups, intended to serve research purposes, resulted in this process of support and assistance among participants. Homeowners exchanged resources like phone numbers and contact people at helpful agencies; offered hugs, tissues, and prayers to peers who related particularly painful stories; shared what they had learned about navigating the experience of mortgage delinquency, bankruptcy, and foreclosure; and gave advice, reassurance, and affirmation to each other. Thus the focus groups reflected many of the dimensions that define peer support groups. They also led to some amount of personal change for participants who realized that they were not alone in their experience, leading them to feel less ashamed of their situation and potentially more likely to seek assistance through a community organization.

**In addition to providing an opportunity for homeowners to share resources, build knowledge, and give and receive emotional support, introducing a peer support model has a number of potential advantages for nonprofit counseling agencies.** Because of its community-based nature, developing a peer support program would also allow nonprofits to more effectively reach the informal, word of mouth social networks of family, friends, and neighbors in low-income communities. The peer support model also offers a base from which to develop awareness and efforts to effect individual, neighborhood, and community change. For example, a focus group participant from Jamaica, Queens (in New York City) who was the victim of a predatory refinance loan turned to a community organization for assistance and is now volunteering full-time for the organization in order to learn more for herself and protect her community from predatory lending. This individual recruited participants for our New York City focus groups from clients she knows at the community organization, and used the forum to provide information about that organization and other resources to the rest of the focus group participants and to encourage her peers to be aware of their vulnerability to predatory loan schemes. Another individual from St. Louis went through a traumatic divorce experience that resulted in her declaring bankruptcy and ultimately being able to avoid foreclosure; this woman now leads financial education and budgeting groups at her church. Hence while the experience of financial struggle and the life circumstances associated with it are often cause for depression and confusion, facing these problems also creates opportunities for learning and sharing knowledge with one’s community.

**Peer support programs offered by nonprofits have the potential to enjoy a unique position: by offering client-based services and assistance they are able to make use of informal support networks, yet are linked to community organizations and all of their resources, skills, power, and relationships.** This provides an opportunity for community-based homeownership education organizations to structure the kind of information that flows in and between social networks in low-income communities in order to minimize the potential for people misinforming one another and assist in circulating accurate and responsible information. Community-based homeownership education organizations that develop peer support programs should partner with other community organizations that provide counseling services. These partnerships should provide monitoring and assistance and individual counseling when needed for peer groups to ensure the socio-emotional and financial well-being of participants.

### **Recommendations for Messaging**

One of the goals of this study was to learn about low- and moderate-income homeowners’ experiences with mortgage delinquency and to make recommendations for developing messages to help prevent delinquent homeowners from reaching foreclosure. Based on our findings we have the following recommendations for such efforts. All messaging directed toward financially precarious homeowners should emphasize the availability of resources for foreclosure prevention and how to access such assistance. Additionally, those hoping to reach delinquent homeowners should consider how to reach those in need of assistance, how best to approach them, and the kinds of messages that might be most effective.

Messages from lenders and nonprofits to delinquent homeowners fall into a context where people are deluged by communications from bill collectors, credit companies, and predatory lenders. Thus homeowners in financial trouble quickly become distrustful of any and all communications and often shut down, ignoring even potentially helpful messages. One exception to this is messaging that bears some mark of trustworthiness such as the homeowner's own lender, a lawyer, or the municipality.

- With this in mind **we recommend that nonprofits, lenders, and the local government partner to target delinquent homeowners, and to consider using radio and television messages to reach them.**
- Similarly, because homeowners under financial strain frequently seek assistance through social welfare agencies, **messages and information about foreclosure intervention resources should be placed in welfare and disability offices.**

The tone of messages directed at delinquent homeowners should take into account that individuals in this situation frequently feel that the circumstances of their financial problems are beyond their control, and perceive that they are treated disrespectfully when they seek assistance from their lenders and nonprofits. People who fall behind on their mortgage payments because of unexpected life events, those who feel they have been the target of abusive lending because of their race, and people who live in areas of economic decline often expressed that they felt the system was stacked against them.

- An effective messaging campaign would stand out by acknowledging that people experience their situation this way and **taking a compassionate and respectful stance.**
- **Address perceptions of unfair treatment while providing information about available sources of assistance** may be effective in reaching those who are in need of assistance yet may be unlikely to seek help otherwise.
- For homeowners who feel they have more control over the situation it may be useful **to craft messages that encourage determination to continue their efforts to stay in their homes as well as providing information about counseling agencies.**

Finally, the content of messages should speak to the gendered reactions homeowners have to delinquency and foreclosure, to the importance of family and children, and incorporate a discussion of faith.

- **Men and women respond to financial strain differently:** while women frequently describe feelings of depression and anxiety about their financial challenges, and difficulty taking care of their families as their financial situation worsened, men spoke of feeling angry at their lenders and of how financial strain impacted their pride and sense of manhood.
- **Messages should also tap into homeowners' motivation to keep their homes for the benefit of their children** by encouraging them to avoid foreclosure to assure their children's financial future.
- Additionally, a number of homeowners emphasized that their **spiritual beliefs provided support and the conviction that they would be able to avoid foreclosure.**

### Recommendations for Nonprofit Counseling Organizations

1. **Counseling agencies should provide information and resources at closing "for a rainy day" to encourage homeowners to seek help should they encounter financial difficulty.** Many homeowners do not know where to turn when they are struggling financially, and do not understand that they can return to the counseling agency for help. Extending a reminder of this at closing may encourage homeowners to seek foreclosure intervention assistance sooner by emphasizing the continuum of services offered by nonprofits beyond getting into homeownership.
2. **Homeownership education should provide opportunities to educate the whole family.** Bringing children into budgeting discussions, teaching them about saving, and devel-

oping other ways to instill financial literacy and responsibility early on is an important way to help low-income households maintain homeownership over generations.

3. **Partnerships are vital to avoid duplication of services and ensure that needs are fulfilled.** Nonprofit and community development organizations, social services, and other groups that come into contact with homeowners experiencing financial difficulty should network amongst each other to learn more about services available in their community and develop referral systems that connect homeowners to needed resources. For example, nonprofits that are not able to provide emergency funds may be able to develop a relationship with a community organization that does, and the two groups could share clients.
4. **Those engaged in foreclosure prevention may be able to better serve their communities by instituting 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. By having more flexible hours nonprofits may make it more feasible for homeowners to get the assistance they need. Alternatively, such groups may be able to strengthen partnerships with sources of assistance that offer 24 hour access, such as CCRC.
5. **Provide a mortgage calculator.** We heard from focus group participants that they found a non-profit organization that offered foreclosure counseling by searching the Internet for a mortgage calculator. An online mortgage calculator would also be an effective tool for illustrating important lending terms to prospective homeowners, e.g. adjustable rate mortgages, prime versus subprime loans, balloon payments, and 80/20 loans. We found that when homeowners described their mortgages they focus almost entirely on their monthly payment rather than the overall terms of their loan. An online mortgage calculator could be used to relate these lending products to borrowers' focus on a projected monthly payment. This tool could also be used to illustrate how much more money a lender will make over the life of a mortgage than they could by foreclosing on a home even if it has increased in value.
6. **In addition to urging homeowners to contact a nonprofit foreclosure intervention counselor at the outset of financial difficulty, warn them of who not to contact.** Nonprofit counseling organizations should provide strategies for effective early contact given the problem of contacting when no or only one payment was missed. We found that almost every homeowner we spoke to had contacted someone for help regarding his or her mortgage delinquency. It was through their search for assistance than many of these homeowners came in contact with fraudulent and predatory housing professionals. Also through their help seeking efforts some homeowners received incorrect or misleading information about important decisions such as the relationship between bankruptcy and foreclosure.
7. **Nonprofit counseling agencies should consider how they can 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.
8. **List five warning signs that you are dealing with a predatory or fraudulent housing professional.** We recommend using a short list of what to look out for to warn homeowners of the dangers of fraudulent and predatory housing professionals. Such a list could include brief descriptions of "one stop shops," fraudulent appraisers, brokers advertising rates too good to be true, and people who knock on your door. While most people knew that these were signs of trouble, under the stress of their financial problems some still decided to do business with fraudulent and predatory housing professionals.
9. **Educators should consider new ways of communicating the full costs of homeownership in pre-purchase education.** In light of the finding that a number of focus group participants did not understand the financial demands of homeownership, nonprofit counseling

organizations may need to reevaluate their curriculum and teaching strategies. 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 in the focus groups 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 to shop for the best mortgage one qualifies for, and buying more house than one can afford.

### Recommendations for Lenders

1. **Although most delinquent loans self-cure without going to foreclosure, lenders should have strategies in place to help homeowners who make contact before they have actually missed a payment.** Homeowners who get in touch with their lender early are being proactive about a potentially catastrophic situation, lenders should recognize this and develop their own proactive responses for early stage delinquency.
2. **Lenders and underwriters should carefully consider the appropriateness of loan products for low-income borrowers.** While lending industry innovations have created opportunities for homeownership among low-income households, some loan products simply may not be appropriate for such households and in some cases may lead to delinquency. Loans should be extended not only to get households into ownership, but also with an eye to maintaining homeownership.
3. **Lenders need to clarify their partial payment policies to borrowers at risk of foreclosure.** When homeowners sent in partial payments and they were returned to them by their lender, they believed that it was because their lender did not accept partial payments. Often this money went toward other expenses, thus exacerbating the problem of delinquency.
4. **Lenders should strive to 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. **Capitalize on the fact that homeowners look to them as a source of reputable information by providing referrals to nonprofit counseling and education.** What is a business relationship for lenders is a highly personal one for homeowners. Lenders may be able to make use of this relationship to prevent delinquent mortgages from going into default and foreclosure.
6. **Recalculate income formula to include predictable repair costs and establish escrow funds for these needs in addition to property taxes and insurance.** Many homeowners did not understand the full costs of ownership because they focused most on their monthly mortgage payment. By approving prospective buyers for a more modest mortgage loan, lenders can help them to prepare for the financial challenges of ownership.

### Recommendations for the Government

1. Homeowners asked that their local government **investigate predatory lenders in their communities and work to save homes, and that the federal government regulate lending practices more strictly, sanction predatory lenders, and enact policies that put more responsibility on lenders to provide borrowers with financial products that are appropriate for them 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. **Institute a certification procedure for organizations providing foreclosure prevention services.** Given increasing reports of “rescue fraud” and the effectiveness of referrals to

HUD-approved counselors, it is clear that delinquent homeowners need to be able to turn to a trusted source of assistance. By regulating help providers in this way homeowners may be more likely to seek effective assistance before their delinquency progresses to default and foreclosure.

3. **Consider developing a formalized pre-foreclosure step with an eye to maintaining homeownership among those at risk of losing their homes.** In light of the new bankruptcy laws that require counseling prior to filing bankruptcy, this suggestion seems quite apt. Implementing a step before the formal foreclosure process begins that would provide intensive credit and financial counseling to delinquent homeowners may be an effective means of ensuring that such people receive assistance and help to avoid foreclosure among low-income homeowners.
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. Struggling homeowners need more programs that provide financial assistance and education, and more help for midlevel needs. Those who found that they were ineligible for some kinds of aid felt that financial help should be made available based on need and special circumstances, rather than income or zip code.

### Cross-cutting Recommendations

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 in loss mitigation should strive to have counselors and educators that reflect the communities they are a part of and who are successful low-income homeowners, who have experienced mortgage delinquency, or been victimized by predatory lending themselves.** In our homeowner groups participants expressed a desire to talk to people who “look like us” and who had been through similar experiences. Among professionals, those who had themselves been at risk of foreclosure seemed to have a more nuanced understanding of how the issue affects low-income households.
2. **Lenders and nonprofit counseling organizations should work together to set up referral networks.** Nonprofits reported difficulty reaching out to homeowners in need of foreclosure prevention services. Those that are HUD-approved counselors report that their first contact with homeowners in financial trouble is frequently via a referral from their lender. Because we learned that homeowners often want to work out their delinquency with their lender, collaborations between lenders and counseling agencies offer an opportunity to connect homeowners with the assistance they need in a timely fashion.
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.** This belief was held by many of the homeowners we spoke to especially in markets where home values had been increasing. Some focus group participants felt that their lenders were unhelpful and unwilling to work out reasonable forbearance or loan modification agreements because the lender wanted the home and would profit through the foreclosure.
4. **Nonprofit counseling organizations and lenders can partner in publishing a weekly newspaper column where people send questions about mortgage financing and get honest answers.** This was suggested by participants in our homeowner focus groups as a cost-effective way of educating the public about the lending industry and the fiduciary responsibilities of homeownership. Homeowners said that they would be likely to trust information that they found in a newspaper.

5. **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.** These options should be communicated early (even before there is a problem) and often. Low-income homeowners living paycheck to paycheck would benefit by being aware of all of the options available to them as early as possible in the process of delinquency.

## **VI. CONCLUSION**

Our recommendations highlight the importance of communication and of addressing problems before they become too serious to solve, while the best practices stand out because they are examples of existing successful approaches that help homeowners to weather financial difficulty and stay in their homes. However, as the findings illustrate, there are many obstacles to resolving issues of delinquency, default, and foreclosure among low-income homeowners.

The current research revealed that for low-income households it is vital for stakeholders to ensure that mortgage delinquency is addressed early enough that homeowners do not get into such difficulty that it can not be resolved. Low-income households may be more susceptible to encountering post-purchase financial difficulties due to downswings in the economy that affects the jobs available to them; because affordable housing stock is often older, deteriorating, and in need of repair; and simply because their financial balance is maintained from paycheck to paycheck. We found that among our focus group participants these risk factors for delinquency were further complicated by buying too much house; being the victim of a predatory loan; or being matched with a loan product that was not affordable in the long run.

In order to address delinquency problems and maintain homeownership in low-income households, some critical points need to be addressed by key stakeholders, particularly nonprofit organizations that provide homeownership education and counseling and loan originators, underwriters, and servicers. First, the costs of homeownership must be realistically communicated to prospective buyers by educators and lenders. Many focus group participants did not understand their responsibilities with regard to taxes and insurance before they became homeowners, while others were more concerned with their monthly mortgage payment rather than the overall terms of their loan and their consequences. Future research should evaluate how current strategies employed by community-based homeownership education organizations communicate these issues, and develop enhanced programming and services as needed. Second, there is a clear need for improved communications between lenders and borrowers when borrowers perceive potential problems on the horizon, and when they get behind. The current research found that homeowners who contacted their lender at the outset of their financial difficulties felt they were given few options to curtail the progression of delinquency and experienced fatigue due to seeking assistance from sources other than their lender. Sometimes they also became distrustful of their lender because substantive communication (with loss mitigation rather than collections) only became possible later in delinquency. It would be beneficial for researchers to examine in more detail how channels of communication between lenders and delinquent homeowners operate, how they could be improved, and what facilitates or hampers effective communication on both sides.

Related to the second issue are the widespread difficulties reported by focus group participants when they tried to make partial payments and arrange repayment plans with their lenders. Clear and open communication may be hampered on both sides due to borrower stress and collections department policies, leading to lack of understanding about options available to financially distressed homeowners. Policies and practices with regard to partial payments, workout plans, and debt restructuring also vary within and between lenders, leading to inconsistent experiences among borrowers as well as the nonprofit organizations they turn to for assistance. More information is needed about these issues in order to facilitate successful resolutions to mortgage delinquency and avoid foreclosure when possible.

### **Acknowledgments**

*We wish to thank BPD Bank, F. B. Heron Foundation, Federal Home Loan Bank of New York, Freddie Mac, M&T Charitable Foundation, NeighborWorks America, Ridgewood Savings Bank, State Farm Insurance, Sterling National Bank, St. Paul Travelers, Washington Mutual for their valuable support, advice, and counsel.*

*We especially wish to thank the staff of Neighborhood Housing Services of Chicago and Michael Collins for their indispensable support and guidance.*

## Appendix A: Site Selection Rationale

### *Introduction*

The objective of the focus group research was to learn more about homeowners in financial difficulty, including those who sought nonprofit assistance for mortgage delinquency and those who did not. In order to understand what contributes to financial difficulty among homeowners and the reasons why such people do or do not seek help, we sought focus group locations with indicators of high rates of people getting in financial trouble as well as available counseling. A key objective in the site selection process was to choose sites that would yield results that are relevant both to the sites of the research and the nation as a whole. Therefore it was important to have a mixture of market types and geographic locations as well as available counseling and indicators of financial difficulty, such as high rates of foreclosure and subprime lending. Some of the market trends that emerged from the 2004-2005 survey research were rapidly increasing prices in many markets resulting in lower-income families being “squeezed out” of the market, and rising numbers of Latino and immigrant homeowners.

In addition to broader considerations of markets and incidence of foreclosure in selecting sites for this work, we also needed to more specific demographic characteristics of homeowners who are experiencing financial difficulties. Based on the results of the 2004-2005 survey research, we know that nearly a third of those who received pre-purchase homeownership education and encounter this problem do not return to the nonprofit for assistance. This group reports higher rates of delinquency, bankruptcy, and fear of foreclosure, as well as higher refinancing costs and lower creditworthiness than those who either did not encounter post-purchase difficulties or who sought help when they did.

To achieve this complex mix of factors the site selection process sought to include sites that would represent: lower-income minority homeowners, particularly African-Americans; differing rates of foreclosure ranging from medium to high; incidence of subprime lending as a proxy for high-interest rate loans; presence of anti-predatory lending efforts as an indicator of community awareness of predatory lending and availability of information to homeowners who may have encountered trouble; presence of counseling centers and nonprofit post-purchase programming to indicate availability of services to homeowners who are experiencing post-purchase difficulty; and nonprofits who are lenders or loan servicers as a sign of availability of “safe” borrowing.

In our selection of the sites for the 2006 Focus Group Research, we used a number of criteria, including incidence of subprime lending, availability of credit counseling, and presence of anti-predatory lending efforts. We also used data from our recent survey research, such as rates of late mortgage payments and fear of foreclosure. For prospective sites that have a nonprofit homebuyer education program, we looked at whether the nonprofit provides post-purchase education and counseling, and whether they are lenders or loan servicers. Finally, we considered demographic information and market conditions in the site selection process.

### ***Selection criteria definitions and sources of information:***

- **Subprime lending-** incidence of subprime refinance and home improvement lending by Metropolitan Service Area (MSA), as documented in the September 2005 Consumer Federation of America report by Fishbein, which used HMDA data. MSAs were ranked on incidence of subprime lending in 4 areas (refinance lending, home improvement lending, refinance lending to African-Americans, and refinance lending to Latinos). The percentile score is the rank divided by the total number of MSAs in each category. The lower the percentile, the higher the incidence of subprime lending in the MSA.
- **Anti-predatory lending effort-** this refers to initiatives to educate and counsel at-risk consumers about predatory lending. Such initiatives have been originated by Fannie Mae and Freddie Mac, as well as individual cities, like New York. Sources for this information are the result of a Google search: “anti-predatory lending effort in *name of city*”, as well as previous familiarity with the Don’t Borrow Trouble program. Information about this program may be found at

<http://www.dontborrowtrouble.com/>. Information about the Preserving Assets and Community Equity (PACE) program in NYC may be found at <http://www.banking.state.ny.us/pr051018.htm>.

- **Foreclosure rate-** documents the per capita foreclosure rate by state. This information is from RealtyTrac and may be accessed online at <http://realestate.msn.com/buying/Articlenewhome.aspx?cp-documentid=340866>.
- **Counseling center-** notes the availability of credit counseling centers in the area.
- **Market size/type/conditions-** an overview of housing market conditions for the area. This information is from a variety of sources, including: open-ended data from phone calls to NWOs during survey research; the Office of Federal Housing Enterprise Oversight's Housing Price Index from March 1, 2006 (accessible online at <http://www.ofheo.gov/HPI.asp>); and the HUD report "U.S. Housing Market Conditions, 3<sup>rd</sup> Quarter 2005" from November, 2005 (accessible online at [http://www.huduser.org/periodicals/ushmc/fallo5/USHMC\\_05Q3.pdf](http://www.huduser.org/periodicals/ushmc/fallo5/USHMC_05Q3.pdf)).
- **Area demographics/income-** details racial and ethnic makeup of site, as well as local median income compared to national median income. The information is from the most recent census data available for each site (either 2000 or 2004), and can be found online at [http://factfinder.census.gov/home/saff/main.html?\\_lang=en](http://factfinder.census.gov/home/saff/main.html?_lang=en).
- **NWO; NWO lender/servicer; NWO post-purchase-** documents whether there is a NeighborWorks organization in the area and what kind of lending, servicing, and post-purchase programming is available through the NWO. This information may be found online at <http://www.nw.org/network/nwdata/CampaignHomeOwnership.asp>.
- **Late payments and fear of foreclosure-** this is information about the incidence of 30 and 90 days late mortgage payments and fear of foreclosure among respondents to the Housing Environments Research Group's survey of 15 nonprofits that provide homebuyer education.
- **Homeowner income-** this is demographic information from the nonprofits who participated in the survey research, and compares the median income of customers at each site with the median income for the area.
- **Other-** any miscellaneous information that didn't fit into one of the categories described above.

## ***Site Selection Rationale***

### **Waco, TX**

Although Waco has an extremely high incidence of subprime lending (particularly to Latino borrowers who are refinancing their homes) and Texas has the 4<sup>th</sup> highest per capita rate of foreclosure in the country, there is no formal anti-predatory lending campaign in the area. The incidence of subprime lending to Latinos in Waco, who make up a significant and growing proportion of the population, is troubling because of the link between high-interest loans and foreclosure. However, credit counseling is available through CCCS of Fort Worth, and the NWO in Waco provides post-purchase counseling and “Sustain the Gain” Education. Survey data indicate that 10% of homeowners in Waco have been 90 days late on mortgage payments (as compared with a 15 site average of 5.7%), and the fear of foreclosure is also very high, with 13.8% of homeowners expressing fear of foreclosure (compared with a 6.8% average across 15 sites). The median income in Waco is 62% of the national median; homeowners who bought homes through the nonprofit there have an income that is 89% of the area median. The high incidence of subprime lending in Waco and the high foreclosure rate in Texas, as well as Waco’s large minority and lower-income population are all compelling reasons to look more closely at homeowners in Waco who are experiencing post-purchase financial difficulties, and their choices about seeking help for these problems.

### **New York, NY**

New York City is a large, urban, and extremely high-priced market. Furthermore, home prices continue to rise rapidly, with a 15.55% increase in 2005 from 2004. In the first quarter of 2005, the average sales price of a home in New York City was \$430,000. This trend is indicative of how lower-income families are being pushed out of the market--as the cost of buying a home increases, the income required to purchase a home also rises. For example, although the median income in New York City is 92.8% of the national median income, the median income of homeowners who bought homes through the NWO in New York City is 130% of the area median. There has been increasing awareness of predatory lending in NYC; growing numbers of reports of predatory lending in Brooklyn and Queens prompted the Preserving Assets and Community Equity (PACE) initiative began in October, 2005. GreenPath Debt Solutions, a non-profit credit counseling agency, is a partner in the PACE initiative. However, it would appear that predatory lending is less entrenched in NYC than in other areas, as it had relatively low incidence of subprime lending in 2004, the most recent year for which HMDA data is available. In addition to the market characteristics and the PACE initiative, the ethnic and racial diversity of New York City (the population in NYC is more than 50% non-white) was an important factor in our decision to include it in our focus group research. We hope to speak to homeowners of diverse backgrounds who have bought a home in the challenging New York City market in order to learn more about the difficulties they may be facing and their decisions in the face of these difficulties.

### **Atlanta, GA**

Despite the moderate incidence of subprime lending in Atlanta, the state of Georgia had the highest per capita rate of foreclosure in the country in 2005, with one out of every 422 homes being foreclosed upon last year. The problem with foreclosure may be linked to a troubling trend of mortgage fraud throughout the state of Georgia and in Atlanta in particular. In response lawmakers there have proposed the Georgia Residential Mortgage Fraud Act in order to punish offenders involved in mortgage fraud. However, there are efforts to provide counseling and education to homeowners in trouble. Atlanta is a ‘Don’t Borrow Trouble’ site. “Don’t Borrow Trouble” is an anti-predatory lending initiative started by Freddie Mac that works to raise consumer awareness about predatory lending practices. Consumer Credit Counseling Services (CCCS) of Atlanta is a local partner in this initiative. The median income in Atlanta is 84% of the national median income, and more than half of the population there is African-American. The issue of predatory lending and mortgage fraud in Atlanta and responses to this issue from Freddie Mac and state legislators, in combination with the large minority population in Atlanta provide strong reasons to include this site in our focus group research.

## **Hamilton, OH**

In 2006 Ohio was the state with the highest rate of foreclosure in the country. At the end of that year 3.38% of residential mortgages were in foreclosure. Hamilton is a suburban housing market in the Cincinnati metro area. Over the past decade foreclosures have tripled in Butler County where Hamilton is the county seat. The median income in Hamilton is 82% of the national median. The area is mostly white (88.9%). Although Hispanics make up only 2.6% of the local population, this is higher than the 1.9% of the population they represent at the state level. No formal anti-predatory lending efforts were found in Hamilton. Until anti-predatory lending laws were passed in 2006, Ohio had no legal protections for consumers against predatory and abusive lending practices. There are several organizations in the area that provide homeownership counseling and education and foreclosure prevention services, including Neighborhood Housing Services (NHS) of Hamilton, NHS of Middletown, and Lifespan. NHS of Hamilton offers a foreclosure prevention "Rescue Program" that provides emergency financial assistance to eligible households at risk of foreclosure. NHS of Hamilton is part of a state wide anti-foreclosure initiative working to provide counseling and early intervention to delinquent homeowners throughout the state. Of all the sites included in this study, Hamilton had the highest percentage (16.9) of mortgage holders who also took out home equity lines of credit. Hamilton bears study because it is a moderate income town with several nonprofit counseling resources and is located in a high-risk area for foreclosure.

## **St. Louis, MI**

St. Louis is an urban market that is seeing an increase in home prices as well as incomes. However, the median income in St. Louis is still 68% of the national median, and the sub-market of homeowners served by the NWO there earn just 49% of the area median income. In 2005 home prices increased by 7.98%, in a fairly significant change from 2004 prices. While the incidence of subprime lending in St. Louis is less troubling than in other areas (such as Waco), homeowners who bought their homes through the NWO there have an extremely high incidence of 30- and 90-day late mortgage payments and a good deal of them expressed fear of foreclosure as well. An average of 6.8% of homeowners who participated in the 2004-2005 survey research reported fear of foreclosure compared to 12.5% of St. Louis survey respondents. St. Louis has been part of the "Don't Borrow Trouble" initiative since 2004. The initiative partners with a number of local agencies, including Consumer Credit Counseling, and provides active outreach to civic organizations there. Thus education and counseling are available for homeowners who are behind on their mortgage payments or in fear of foreclosure. An important factor in St. Louis's inclusion in the focus group research was its large African-American population, which makes up 52% of the city's total population. This is significant due to both the negative outcomes faced by African-Americans who do not seek help when they are in financial trouble and for the rising number of minority homeowners whose homes are being foreclosed upon. Overall, St. Louis represents a market with low-income homeowners who are experiencing financial difficulties and who are afraid they will lose their homes. Our focus group research is aimed at learning what factors are important in the decisions these homeowners make about their financial situation, including whether to utilize the services available to them in St. Louis.

## Endnotes

- <sup>1</sup> 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).
- <sup>2</sup> Mortgage Banker’s Association of America 2006 National Delinquency Survey
- <sup>3</sup> Dan Immergluck & 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).
- <sup>4</sup> 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.
- <sup>5</sup> NeighborWorks America Campaign for Homeownership Members:  
<http://www.nw.org/network/nwdata/CampaignHomeOwnership.asp> accessed June 28, 2007.
- <sup>6</sup> Freddie Mac with Roper Public Affairs- GFK, “Foreclosure Avoidance Research”, *Freddie Mac* (2005).
- <sup>7</sup> 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.
- <sup>8</sup> I.L. Janis, “Decision-making Under Stress”, in *Handbook of Stress: Theoretical and Clinical Aspects*, eds. L. Goldberger and S. Breznitz. New York: Free Press (1984): 69.
- <sup>9</sup> G. Keenan, “Decision-making Under Stress: Scanning of Alternatives Under Controllable and Uncontrollable Threats”, *Journal of Social and Personality Psychology* 52(3) (March 1987): 639.
- <sup>10</sup> Marianne Bertrand, Dean Karlan, Sendhil Mullainathan, Eldar Shafir, Jonathon Zinman, “A Field Experiment in the Consumer Credit Market”, *National Bureau of Economic Research* (2005).
- <sup>11</sup> Mark Wiranowski, “Sustaining Home Ownership Through Education and Counseling”, Neighborhood Reinvestment Corporation and the Joint Center for Housing Studies of Harvard University, Fellowship Program for Emerging Leaders in Community and Economic Development (2003).
- <sup>12</sup> Ibid.
- <sup>13</sup> Ibid.
- <sup>14</sup> Ibid.
- <sup>15</sup> David Leonhardt, “It’s the Year to Keep an Eye on Paychecks”, *The New York Times*, 3 January 2007, Business sec.
- <sup>16</sup> Andrew Sum, Ishwar Khatiwada, Joseph McLaughlin, Sheila Palma, & Paulo Tobar, “Who Stole Christmas from U.S. Frontline Workers?: The Absence of Real Wage Growth Despite Strong Economic Gains, 2000-2006”, *Center for Labor Market Studies at Northeastern University* (2006).
- <sup>17</sup> Ibid.
- <sup>18</sup> Z.X. Di, “Does Housing Wealth Contribute to or Temper the Widening Wealth Gap in America?”, *Housing Policy Debate*, 16 (2005): 281.

<sup>19</sup> Susan Saegert, Fran Justa, & Gary Winkel, “Successes of Homeownership Education and Emerging Challenges”, *Center for Human Environments Housing Environments Research Group* (2005); Mark Wiranowski, “Sustaining Home Ownership”

<sup>20</sup> *Don't Borrow Trouble* <[http://www.dontborrowtrouble.com/en/our\\_partners\\_map.html](http://www.dontborrowtrouble.com/en/our_partners_map.html)> Freddie Mac Corporation (12 January 2007).

<sup>21</sup> William C. Apgar & Mark Duda, “Home Ownership Preservation Initiative: Partnership Lessons & Results”, Three Year Final Report by *Neighborhood Housing Services of Chicago, Inc* (2006); William C. Apgar & Mark Duda, “Collateral Damage”; Michael Collins, “Understanding Borrower Behavior: Mortgage Default Focus Groups”, *PolicyLab Consulting Group* (2006); Michael Collins, “Exploring the Design of Financial Counseling for Mortgage Borrowers in Default”, *Journal of Family and Economic Issues*, Special Issue 28 (2007) in press; PolicyLab Consulting Group, “Chicago’s HOPI Experiment: Lessons from the Field”, (2006).

<sup>22</sup> M. Davis, “Loan Company Avoids Foreclosure by Helping Clients Find Work”, *Milwaukee Journal Sentinel*, 4 February 2007.

<sup>23</sup> Phyllis Solomon, “Peer Support/Peer Provided Services Underlying Processes, Benefits, and Critical Ingredients”, *Psychiatric Rehabilitation Journal* 27 (2004): 392.

<sup>24</sup> Ibid.