

The Effects of Foreclosure Counseling for Distressed Homeowners

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Housing Counseling Intervention: Research and Impact

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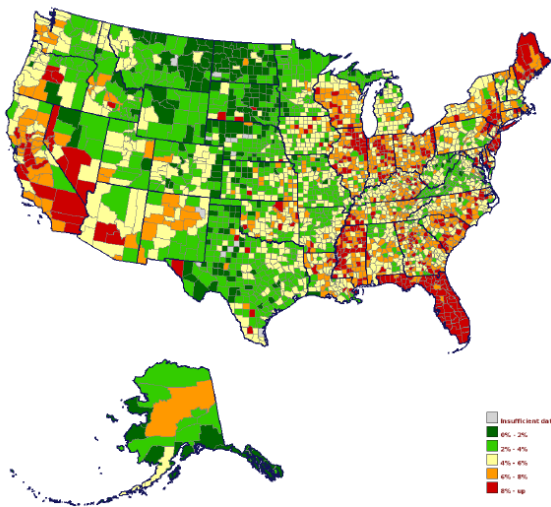
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Motivation

- Recent recession and housing market collapse have resulted in millions of Americans becoming delinquent on their mortgages and at risk of foreclosure
- Ongoing glut of foreclosed homes risks substantially prolonging the housing market downturn
- One possible solution is the provision of mortgage default counseling to at risk or delinquent borrowers

Mortgage Delinquency and Foreclosure Nationwide

Delinquent Payment: 90+ PD, Foreclosure, All 50 States, 201104*



Motivation

- In response to crisis large increase in funding for mortgage default counseling with limited evidence of its effectiveness
 - Primarily due to limited provision of default counseling prior to housing crisis
 - Homeowners could generally sell their home if they ran into trouble
 - Frequency of default counseling so low as to make quantitative analysis difficult/little data with which to evaluate
- However, several years into the crisis we now have:
 - Widespread default and use of counseling
 - Numerous sources of data on borrowers, counseling and mortgage outcomes available
 - Months, if not years, of observations following receipt of counseling and/or a loan modification

Roles & Rationales for Default Counseling

- What is the purpose of foreclosure counseling and how can it help a borrower?
 - Diagnose payment problem
 - Review income and expenditures/create a budget
 - Prioritize non-mortgage debts
 - Maximize potential income (i.e. Food Stamps enrollment)
 - Form repayment strategies, including mortgage modification or selling the home (if possible)

Roles & Rationales for Default Counseling

- Complex contracts that targeted populations fail to understand
- Modification process is complex and often frustrating; counselor can better navigate the system
- Lack of information about alternatives including public and private programs
- Emotional distress as a barrier to information processing
- Trusted 3rd party advisor in time of hardship
- But...
 - Limited potential if income reduced or eliminated
 - Quality and availability are uneven

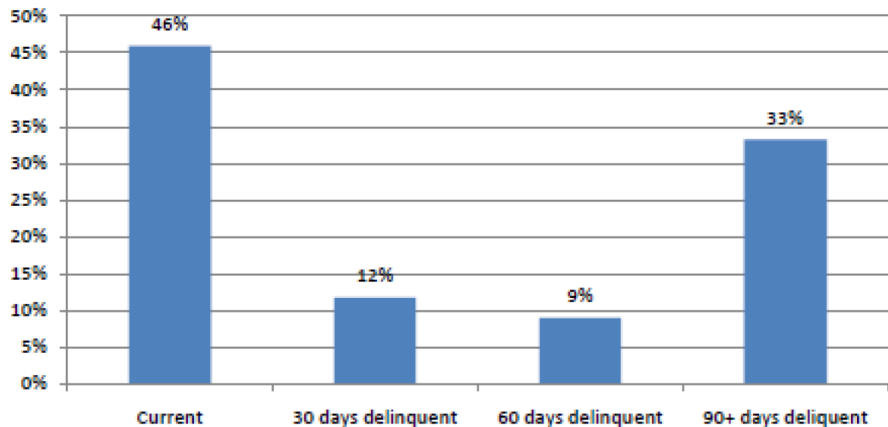
Research Question

- Examine the effect of mortgage default counseling on borrower outcomes (receipt of a modification; REO) controlling for selection into counseling
- Examine whether the timing of counseling receipt affects borrower outcomes
- Compare parameters of modifications for borrowers who received counseling relative to those who did not receive counseling
- Compare outcomes for borrowers who receive a loan modification with and without counseling

Data

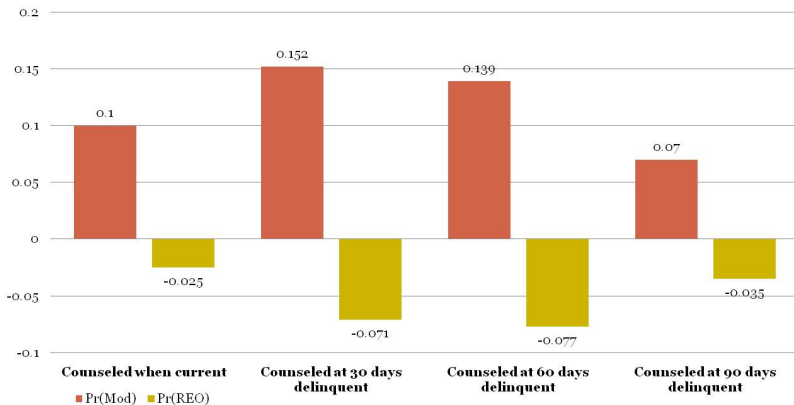
- Use Wells Fargo Bank, N.A. Corporate Trust Services (CTS) database linked to administrative data on counseling from Homeownership Preservation Foundation's HOPE hotline (888-995-HOPE)
- CTS is a service of Wells Fargo Bank, N.A. that provides information on a variety of investment vehicles administered by the bank
- CTS data cover nearly six million securitized mortgages for which Wells Fargo serves as the trustee
- HOPE hotline has fielded over one million calls from borrowers

Delinquency Status at Time of Counseling



Impact of Counseling on Borrower Outcomes by Timing of Receipt

Effects Vary Depending on When Counseling Occurs



Impact of Counseling on Loan Terms

- Counseled borrowers who receive a loan modification have better terms than uncounseled borrowers:
 - \$110 lower monthly payment on average
 - 5 basis points lower interest rate on average
- Counseled borrowers perform better post-modification:
 - Approximately 0.6 percentage point lower probability of subsequent REO
 - Approximately 0.2 percentage point lower probability of redefault

Conclusions

- Counseling consistently increases the probability of receiving a loan modification
 - Approximately 10 percentage point (200%) increase relative to uncounseled borrowers
- Counseling reduces probability of REO (completed foreclosure/loss of home)
 - Approximately 4 percentage point (150%) reduction relative to uncounseled borrowers
- Delinquency status when borrower receives counseling matters
 - Appears to be sweet spot at 30-60 days delinquent
- Among borrowers receiving loan mods, counseled borrowers significantly less likely to subsequently lose their home to REO than uncounseled borrowers
- Likely due to the fact that they receive better terms on their loan modifications (lower monthly payment, lower interest rate, etc)

Conclusions

- Timing of counseling receipt is very important
- Earlier is generally better; although effect appears greatest for those 30-60 days delinquent
- In general, investment in counseling should yield positive results for borrowers
- However, no amount of counseling solves lack of income, loss of job, etc. with which to meet mortgage obligations

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