Profitwise
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Regional Home Ownership Preservation Initiative, "RHOPI":

Chicago Federal Reserve Bank, The Chicago Community Trust, Neighborhood Housing Services of Chicago, and Dozens of Regional Institutions Forge Solutions to the Foreclosure Crisis in the Chicago Metro Area

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Profitwise
News and Views

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Profitwise

December 2009 News and Views

In this edition of *Profitwise News and Views*, we feature perspectives on the Regional Home Ownership Preservation Initiative (RHOPI). RHOPI is one of many Chicago Fed programs aimed at addressing and mitigating the foreclosure crisis in the Seventh Federal Reserve District, and involves approximately 100 individuals representing 70 organizations that want to stem foreclosures and their impacts. They worked together to reach actionable recommendations for addressing the crisis in the Chicago Metropolitan Area. RHOPI was cosponsored and initiated by the Federal Reserve Bank of Chicago, The Chicago Community Trust, and Neighborhood Housing Services of Chicago (NHS). Aside from the initial sponsoring organizations, lead RHOPI partners include Housing Action Illinois, the Woodstock Institute, the Chicago Metropolitan Agency for Planning, Chicago Metropolis 2020, and the Metropolitan Mayors' Caucus.

Visit the RHOPI Web page at www.regionalhopi.org.

Also in this edition is an article by Michael Collins, assistant professor in the School of Human Ecology at the University of Wisconsin, Madison. Collins takes a critical look at the role of home buyer counseling based on data gathered during the first six years of the groundbreaking NHS led (in partnership with the city of Chicago and the Chicago Fed) Home Ownership Preservation Initiative, of which RHOPI is a geographical, organizational, and programmatic expansion.

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RHOPI Perspectives: *The Federal Reserve Bank of Chicago*

by Michael Berry

Background

The Chicago Fed and the Federal Reserve System have a longstanding interest in the causes and ramifications of unstable housing markets and high foreclosure rates. The Federal Reserve System helped to establish what is now known as NeighborWorks® America, the umbrella organization for a national nonprofit housing enterprise with 250 offices, of which Neighborhood Housing Services of Chicago (NHS) is an affiliate, one that is nationally recognized for its work in revitalizing neighborhoods, and more recently, stemming foreclosures. A member of the Federal Reserve Board of Governors, currently Elizabeth Duke, has a permanent seat on the board of directors of NeighborWorks® America.

For many years, the Chicago Fed has worked with NHS and the city government to bring greater support to NHS efforts in the most impacted neighborhoods, with the hope of promoting stability in local housing markets. The Home Ownership Preservation Initiative, widely known as "HOPI," launched by NHS in partnership with the city and the Chicago Fed in 2003, is now a national model for localized foreclosure intervention and abatement efforts. HOPI partners include many of the nation's largest lenders and servicers, and in the pilot years of 2003 to 2006, HOPI impacted citywide foreclosures significantly, reducing the overall rate by over 10 percent by focusing in the city's most at-risk communities.

Chicago Mayor Richard Daley recognized very early the urgent need to address the high foreclosure rates in city neighborhoods, but a number of suburban communities, particularly the near south and near west suburbs, also had high foreclosure rates relative to more affluent areas, and like the city, long before the current crisis, but not the individual budgets to delegate foreclosure mitigation to an outside entity.

Notwithstanding the systemic financial crisis, the reason for the Fed's concern in addressing high foreclosure rates may not be readily apparent. The Fed's interest relates directly to its broader mission: unstable housing markets lead to unstable local economies, undercutting the Fed's dual goals of price stability and sustainable economic growth. The Fed is limited by statute from engaging in policy and political activities, but has a longstanding and robust capacity to convene concerned actors, including policymakers, on a variety of matters connected with the Federal Reserve System's broader objectives. The Fed has worked over many years to foment networks across the financial, advocacy, and policy communities to address a variety of housing issues, including foreclosures.

The housing and financial crisis: a "Perfect Storm"

The current crisis gained momentum in the early months of 2007, with the confluence of falling home values, tightening credit, and mass numbers of subprime defaults eventually culminating in the most significant financial market collapse since the Great Depression. By that summer, it was clear that the upshot of years of irresponsible mortgage lending was going to be very serious, and that the Chicago region was going to experience its fair share of pain. The Chicago metropolitan area followed the national foreclosure trend with approximately a 100 percent increase in foreclosure starts from 2006 to 2008 in the city, Cook County, and the six-county region. Data for the first three quarters of 2009 show the rate of foreclosure filings in the region is still on the ascent.

While the current crisis has placed a bright spotlight on foreclosures and their destabilizing effects, high foreclosure rates have impacted some of the Chicago region's city neighborhoods and suburbs for literally decades. In the fairly recent past, it was easier to downplay the overall impact of foreclosures, as it was isolated to a relatively few communities and neighborhoods. The primary reason for this phenomenon was a bifurcated mortgage credit market that provided high-cost, sometimes poorly underwritten loans of various types to the poorest areas, and conventional, competitively priced credit to most other areas of the region.

Beginning in about 2003, much broader and more aggressive marketing of subprime and exotic mortgages such as option ARMS[1], helped to fuel the eventual crisis, as many of the same shoddy underwriting practices and lax quality control were applied to the more mainstream and geographically broader mortgage market. Opponents of CRA have attempted to link these practices, and by extension the financial crisis, to the Community Reinvestment Act, but there is no factual or scientific basis that indicates a cause and effect relationship between the two. Research conducted at the Board of Governors on subprime loans originated between 2004 and 2008 showed no significant difference in default rates between CRA-qualified lending areas and more affluent communities.[2] Long before that period, responsibly underwritten subprime mortgages were extended by the hundreds of thousands, if not millions, to households with limited or blemished credit histories, without higher than expected defaults.[3] One among many items of misinformation related to the crisis, its origins, and Fed and Treasury responses, the misleading proposition that CRA lies at the root of the crisis can and should be laid to rest.

Formation of a regionally focused foreclosure initiative

By mid-2007, the Chicago Fed's Consumer and Community Affairs group was meeting with organizations interested in pursuing a regionally focused strategy. It was clear that HOPI, a city-focused initiative, offered many valuable lessons and best practices, but was already losing ground to mounting foreclosures. By late that year, it was clear the HOPI infrastructure was not able to fully address what had become a broad-based, metropolitan problem requiring cross-jurisdictional cooperation. Building on lessons learned and the HOPI brand, Regional HOPI (RHOPI) was convened by The Chicago Community Trust, NHS, and the Chicago Fed to develop recommendations and action plans to address foreclosures across the metropolitan area. The work was divided into four categories: home owner counseling, refinancing and loan modifications, vacant property abatement, and research.

RHOPI formally began with a set of nine facilitated meetings through August and September of 2008: a preliminary and secondary meeting of the groups discussing each of the subject areas, and a plenary session in late October 2008 to report findings and recommendations from each group.[4]

With the release of the RHOPI Action Plan on April 27, 2009, the focus of activity officially moved away from formulating recommendations to implementing them, though in reality implementation efforts were already under way. A few (of many) highlights of implementation efforts appear on page 7. We at the Chicago Fed continue to be optimistic about the prospects for RHOPI and, more specifically, its committed partners to have significant impact on the regional foreclosure crisis. We are privileged to work with such a committed group of organizations.[5] We remain committed as an institution to alleviating the crisis in our region and our five-state district, and to sharing valuable lessons and information with concerned groups nationwide.

Notes

1 Option Adjustable Rate Mortgages – Option ARMs – allow a borrower to select a monthly payment that can range from a fully amortized payment (or more, if principal is added to the payment) to less than the interest due in a given month, in which case the unpaid interest is added to the principal balance. Generally, these contracts carry onerous provisions (including a substantial rate increase) that take effect after the principal balance reaches a proscribed level.

2 An article summarizing the research is available on the Minneapolis Fed's Web site at www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4136.

3 For a no-nonsense synopsis/discussion of the CRA and mortgage crisis, see "Don't Blame Subprime Mortgage Crisis or Financial Meltdown on CRA" at www.stablecommunities.org/node/472.

4 Read the report detailing the findings and recommendations of the RHOPI task forces at www.chicagofed.org/community_development/RHOPI_FULLnosig_web_final.pdf.

5 Please see the RHOPI Charter at www.woodstockinst.org/RHOPIcharter.pdf; for a complete list of partner organizations, visit www.regionalhopi.org/content/rhopi-partners; and see the RHOPI Action Plan at www.chicagofed.org/community_development/files/RHOPI_paper_nosig_final.pdf.

Biography

Michael Berry joined the Federal Reserve Bank of Chicago's Consumer and Community Affairs Division in December 1995. He manages the division's Emerging Issues unit, and serves as managing editor of the division's publication Profitwise News and Views. Mr. Berry holds a BA in political science from Susquehanna University and an MBA from the Kellstadt Graduate School of Business at DePaul University.

THE
CHICAGO
COMMUNITY
TRUST

AND AFFILIATES

RHOPI Perspectives: *The Chicago Community Trust*

by Roberto Requejo

Starting in the second half of 2007, the foreclosure crisis spread quickly across the Chicago area, seriously affecting communities of color and vulnerable populations. Although some public, private, and nonprofit responses to the growing foreclosure crisis in the Chicago area had started to develop in mid-2008, most of these responses seemed to be concentrated in the city of Chicago and a few nearby suburbs. The Chicago Community Trust (Trust), in collaboration with the MacArthur Foundation, commissioned the first region-wide report to catalogue those responses. Unsurprisingly, the study showed that large parts of Cook and other collar counties around Chicago lacked housing counseling and legal aid resources, had little access to sustainable financial products to refinance or modify troubled loans, and did not have strategies to deal with an ever-growing number of foreclosed vacant properties.

Experts agreed that there was a need to create a forum for groups across metropolitan Chicago engaged in addressing the foreclosure crisis to bring a more coordinated regional response, and leverage resources in ways that individual organizations generally cannot. Thus, understanding that the scope and depth of the foreclosure crisis required responses different from "business as usual," in the fall of 2008, The Trust, the Federal Reserve Bank of Chicago, and Neighborhood Housing Services of Chicago (NHS) co-sponsored the Regional Home Ownership Preservation Initiative (RHOPI).

Developing a regional plan to address foreclosures in the Chicago metropolitan area

This metro-wide effort convened over 100 experts and practitioners in several task forces focused on developing coordinated priorities and action plans around (1) home buyer and home owner counseling and legal aid, (2) refinancing and financial products, and (3) foreclosed vacant properties. A separate group of experts developed a research agenda. Each task force was co-chaired by two experts and addressed key aspects of the crisis. After several meetings, each Task Force generated three main priorities which, in turn, informed the development of specific action steps to address the foreclosure crisis.

As these priorities were developed, the Obama administration was ramping up its response to the housing and credit crisis by launching the Making Home Affordable (MHA) Program and the American Recovery and Reinvestment Act (ARRA). RHOPI participants recalibrated their priorities to reflect these new developments. Shortly after the inception of the ARRA, RHOPI partners released the RHOPI Action Plan (Plan), on April 27, 2009, at a special meeting. At this meeting, panels of public, private, and nonprofit sector leaders introduced the different priorities and efforts to implement them, and the task forces met once again to update and refine different sections of the Plan, which was and is intended as a living document. The Plan and its priorities turned into a dynamic roadmap that could adapt to the new developments that ARRA brought with it. And task force co-chairs passed the baton to a group of lead nonprofit organizations that would be carrying forward the Plan by bringing resources and partners to the table. The final RHOPI Charter formalizes the commitment of all participants to advance the Plan, and reflects the following objectives:

Home Ownership Counseling and Legal Aid Task Force identified as main priorities:

- Enhance borrower and renter outreach
- Increase access to counseling and legal aid resources
- Improve counseling/legal aid networks

The Refinancing and Financial Products Task Force decided that the main priorities were:

- Standardize systems used to analyze loans and borrowers
- Improve financial products and/or expand its geographical scope
- Promote and facilitate sustainable loan modifications, in the context of the MHA Program

The Foreclosed and Vacant Property Task Force established as priorities:

- Create an information clearinghouse
- Develop best practices for redevelopment
- Identify entities for implementation of redevelopment strategies in the context of the Neighborhood Stabilization Program

The value of Regional HOPI

What started as initiative to learn more about facts, trends and responses to the region's foreclosure crisis, coordinate actions, and establish priorities has developed into an unprecedented partnership of governmental, nonprofit, and private sector organizations. The RHOPI process has brought people and organizations together and broken silos among sectors and jurisdictions. The flexible network created by RHOPI is now acting as a platform to make the most of the federal programs activated by ARRA and develop immediate solutions to some of the most pressing problems that the foreclosure crisis had brought to our region, namely: tens of thousands of families losing their homes; and abandoned properties driving down home values, tax revenues, and community stability in our neighborhoods.

For The Trust, the experience strengthened the relationships among foundation and grantees, opened the door to partnerships with governmental agencies and private sector, and, more importantly, helped develop a strategic approach to (our) grant-making and mission-aligned investments, using the Plan as a guide.

Since the Plan was released earlier this year, The Trust has committed over $1.5 million in grants to nonprofits addressing the foreclosure crisis. In close collaboration with the organizations mentioned above, more than 20 counseling agencies, legal aid providers, advocates, organizers, and housing developers funded by The Trust are working hard to stop the effects of the current crisis and avoid a recurrence. Most grants have been awarded under the community development program area of The Trust, and several have been made possible through the Unity Challenge, another initiative led by The Trust to address the economic crisis in the Chicago region, which leveraged every dollar contributed by private donors and institutions with two dollars from The Trust, creating a $4 million pool. Grants addressing the foreclosure crisis are being organized around three major areas:

Direct provision of services for families and individuals, including	Assistance and resources for nonprofits and municipalities dealing with the foreclosure crisis	Systemic change
▪ Outreach efforts ▪ Housing counseling ▪ Legal aid ▪ Assistance with loan modifications ▪ Relocation ▪ Housing development ▪ Referrals to other agencies	▪ Technical Assistance ▪ Training ▪ Capacity building ▪ Financing	▪ Policy change ▪ Advocacy & organizing ▪ Research & evaluation ▪ Strategies to maximize stimulus funding

RHOPI has also opened the door to leverage Trust dollars in unprecedented ways. For example, thanks to the partnerships set in place, a recent $25,000 investment of Trust dollars in an outreach event leveraged approximately $30,000 in in-kind support from municipalities, the state, banks, and volunteers serving over 300 families. The investment in staff capacity in suburban communities has crystallized into multi-million dollar applications for ARRA funding that otherwise wouldn't have been submitted. Finally, the most recent applications for Neighborhood Stabilization Program dollars have brought over $14 million to the two collaborative efforts funded by The Trust and other foundations in West and South Cook County.

Regional HOPI as a model for further cooperation

As the collaborative model around housing triggered by RHOPI starts to take shape and receive national attention, the groups involved are exploring its suitability to organize around its structures and principles other sources of funding beyond the housing dollars provided by ARRA. The Trust, the Grand Victoria Foundation, and CMAP recently co-convened a number of agencies involved in RHOPI (i.e., Housing Action Illinois, Metropolitan Planning Council, Metropolitan

Mayors Caucus, and Chicago Metropolis 2020) to work in collaboration with other organizations closely engaged in allocating and administering ARRA dollars for energy and weatherization, such as the Center for Neighborhood Technology or the Community Economic Development Association (CEDA). The group has also included experts in ARRA dollars connected to workforce development, such as the Chicago Jobs Council.

The group is building on the RHOPI spirit of regional cross-sector collaboration and its geographic "hot spots" (the South and West Cook clusters) to find ways to:

- Better connect ARRA housing, energy, and workforce development programs to make the most of the dollars associated with these streams of funding.
- Promote collaboration – not only among municipalities, but also among different levels of government receiving and administering ARRA dollars, including county governments, the state of Illinois, the Illinois Housing Development Authority, public housing authorities, and the federal agencies engaged in ARRA.
- Engage the private sector into recovery strategies by leveraging private capital and attracting developers, financial institutions, contractors, and businesses.

This effort tries to take advantage of ARRA to develop new, more creative ways of working with public dollars, as a response to one of the challenges of ARRA programs highlighted by Brookings Institution in a recent report: the use of old (and frequently silo-like) channels and formulas to respond to new challenges that require a more open, cross-issue, and multi-jurisdictional approach.

Biography

Roberto Requejo is a program officer at The Chicago Community Trust. Mr. Requejo manages several cross-programmatic and regional initiatives. He is also part of the team coordinating two projects launched in partnership with the Chicago Metropolitan Agency for Planning (CMAP): the development of a comprehensive 2040 plan for the region, and the ARRA Coordinating Council, established to maximize the impact of the Recovery Act ("stimulus") dollars in the Chicago metropolitan area. Mr. Requejo's grant making responsibilities include, among other areas, affordable housing, legal aid, homeless and hunger prevention, and LGBT issues. He is a board member of affordable housing developer Heartland Housing, Inc., and a member of the Urban Land Institute.

Implementation of the Regional HOPI Action Plan

Funded by The Chicago Community Trust (Trust), a group of nonprofits has stepped forward to make sure that the spirit and the priorities in the Regional HOPI Action Plan (Plan) move from planning phase into implementation, and have started to work on specific solutions. Below are some examples. These agencies have developed a charter that has been signed by Regional HOPI (RHOPI) participants:

- Metropolitan Planning Council (MPC), Metropolitan Mayors Caucus (MMC), and Chicago Metropolis 2020 (CM2020) are supporting inter-jurisdictional coordination in South and West Cook counties (see www.metroplanning.org/news-events/article/3529), some of the areas hardest hit by foreclosures. The South Cook cluster includes Blue Island, Dolton, Harvey, Olympia Fields, Park Forest, and other nearby municipalities. The West Cook cluster includes Bellwood, Berwyn, Broadview, Forest Park, Maywood, and Oak Park. As a result of this effort, The Trust approved a grant to support housing coordinator positions for the South and West Cook clusters of municipalities. The two coordinators, working for the South Suburban Mayors and Managers Association and IFF, will optimize deployment of Neighborhood Stabilization Program (NSP) 1 and 2 funds for best impact by connecting with other housing programs (i.e., Community Development Block Grant and Making Home Affordable) with counseling dollars, and by deploying funds near transit and jobs. In November 2009, the collaboratives were awarded a combined amount of $14 million from Cook County to start the redevelopment of foreclosed properties and counsel prospective home buyers.
- Housing Action Illinois and the Woodstock Institute have partnered to collect data and map the demand and supply of counseling agencies throughout the Chicago region. The first report, "On the Foreclosure Frontlines" (see www.housingactionil.org/downloads/ontheforeclosurefrontline_july2009_hai-woodstock.pdf), was produced in early July 2009; the report finds that agencies are often unable to take new clients due to working at full capacity, and recommends increasing various resources to counseling agencies.
- NHS and the Spanish Coalition for Housing are working with the RHOPI lead organizations, municipalities and others to replicate, in the suburbs, successful loan modification events like the ones held in the city of Chicago that have resulted in over 500 applications for the Obama administration's new Making Home Affordable initiative. Events are being planned for the south and west suburbs. The first suburban event took place in the western suburb of Cicero on August 29, 2009, serving close to 300 families. Another event took place on November 21, 2009.
- The Woodstock Institute and The Trust worked together to design and launch a Regional HOPI Web site, www.regionalhopi.org, which has been created to share information and assist in coordination for all partners.

More recently, also building on RHOPI outcomes, the Chicago Metropolitan Agency for Planning has created a region-wide consortium to apply for $75 million in NSP 2 funds (see www.cmap.illinois.gov/policy/housing.aspx), including the cities of Aurora, Berwyn, Cicero, Elgin, and Joliet; the counties of Cook, DuPage, Kendall, Lake, and Will; and the Illinois Housing Development Authority. The consortium includes NHS as a nonprofit member.

Neighborhood Housing Services of Chicago, INC.

RHOPI Perspectives:
Neighborhood Housing Services of Chicago

by Christen Wiggins

Over seven years ago, Neighborhood Housing Services of Chicago (NHS) increased substantially its focus on working to help victims of predatory lending avoid foreclosure. Well before the "foreclosure crisis" was a national phenomenon, home owners, mostly in lower-income communities, were facing foreclosure at an increased rate due to the predatory practices of mortgage brokers peddling subprime loans with high interest rates. NHS identified this issue through its network of neighborhood offices, neighborhood staff, and advisory councils, and initiated the Home Ownership Preservation Initiative (HOPI) formally in 2003. The idea behind the effort was to engage the new players in the mortgage market, including subprime lenders and servicers, who were playing an increasingly significant role as foreclosure rates grew, to help stem the rise in foreclosures.

Over the next several years, HOPI meetings and programmatic elements focused on Chicago's low- and moderate-income (LMI) communities, which have been disproportionately impacted by foreclosures. HOPI was, and still is, a forum for servicers, lenders, investors, housing counselors, and community representatives to exchange ideas about preventing foreclosures and mitigating the impact of foreclosure on Chicago's LMI neighborhoods. As an NHS program, it has been focused on providing practical solutions and services to families in foreclosure and sharing those lessons with industry and policy leaders to affect change in the overall system. While foreclosures have continued to increase in the city of Chicago, HOPI has meant a critical head start for the city in dealing with these issues and adapting existing solutions.

About two years ago, it became clear that the foreclosure crisis was no longer confined to Chicago's lower-income communities. In fact, it was no longer just an urban issue at all; foreclosures were increasing at record pace in the suburban communities surrounding the city and stretching into the six-county collar region of the Chicago metropolitan area. Communities that had seen record growth in population and home values as a result of easy credit began to see significant increases in foreclosure starts.

NHS's home ownership department began to receive increased numbers of calls and requests for help from suburban home owners for foreclosure intervention. Overwhelmed by the volume, NHS could not help all these clients. Furthermore, NHS did not have access to the resources necessary to build a sustainable program to provide outreach and services to these communities. Therefore, NHS committed to geographic expansion beyond the boundaries of the city of Chicago in 2008.

NHS learned that suburban communities faced disadvantages to finding and implementing solutions. They did not experience the "warm up" that the city had faced with foreclosure, which led to valuable relationships and learning in Chicago. In addition, there was not a pre-existing nonprofit network in the suburbs as there had been in the city. Finally, the suburbs did not to have the level of public financial resources or direct control over federal funds from which the city of Chicago benefits.

To address these obstacles and understand the full range of potential barriers to assisting suburban communities, NHS teamed up with The Chicago Community Trust and the Federal Reserve Bank of Chicago to host a series of working sessions in the fall of 2008. The purpose of these meetings was to look at the issue of foreclosure regionally (with a special emphasis on the suburbs), and to start identifying solutions. The idea was to take the existing lessons and relationships of the current HOPI partnership and see how and where they could be applied or adapted to a suburban setting. Given the complexity of the environment – a diverse and segmented suburban area – the groups were also looking to prevent duplicative efforts.

The workshops were divided into four sections to allow participants with particular interests to take a deeper dive: Refinancing and Financial Products, Home Ownership Counseling, Vacant Properties, and Foreclosure Related Research. Each group was comprised of representatives from multiple sectors engaged in the foreclosure problem, including lenders, advocacy groups, nonprofits, and regulators. Each group developed a list of actionable priorities they felt would help combat foreclosures in the region. Staff from various areas of NHS participated in the four working groups. NHS staff participated but did not lead the groups so that additional ideas could surface outside of the NHS HOPI experience, and also to support emerging and established suburban leaders.

The recommendations ranged from national policy changes to the need for local resources. Out of each workshop, a group of leaders emerged to move the priority recommendations forward. There was a sense among the leaders that continued coordination would be valuable. While the foreclosure problem might be easily divided into four working groups, the solutions that were identified were intertwined with other efforts. For example, the vacant properties group, which was primarily dealing with the implementation of the federal Neighborhood Stabilization Program, needed support and input from the counseling and finance groups as they thought about how to sell the single family housing units the program would produce. Likewise, the research group wanted feedback on the data necessary to help the emerging programs and efforts develop and make their cases to potential funders.

To keep the momentum moving, NHS offered to serve as the convener of the new leadership group that had emerged from the four working groups. These monthly meetings began informally, with updates on progress towards the goals developed in the working sessions. As time progressed, the group began to serve as a place to bounce ideas off other sector leaders, identify new possible partners for the various ongoing efforts, and work through some of the issues and obstacles that were facing the groups. The leadership group was formed of representatives from the spheres of research, urban planning, service, and advocacy; thus, each participant's perspective added depth to the conversation.

In this role, NHS has also been able to harness the momentum behind the HOPI Program to continually inform the regional efforts. HOPI has a unique space in the foreclosure conversation that uses local, on the ground experiences to inform national policy and industry leaders. Now, not only are the set of experiences being generated by NHS's city of Chicago programs, but also the partner leaders of the RHOPI effort throughout the suburbs.

Today, loan modification, in particular the president's "Making Home Affordable Program" (MHA), has taken the lead as the primary "financing" tool for helping families avoid foreclosure. In the city of Chicago, nearly three quarters of the successful foreclosure interventions that NHS counselors secure for their clients are achieved through a loan modification.

NHS eventually emerged as the leader of the Refinance and Financial Products task group. During the fall meetings, participants repeatedly suggested that a loan pool like the one NHS has would be a valuable tool to helping suburban families fight foreclosure. At first, we thought that would mean extending the refinance product that NHS currently provides in the city on a pilot basis into the suburbs. While that is still a possibility, the market has changed substantially since last fall, and refinancing is no longer a primary tool to help borrowers avoid foreclosure.

Today, loan modification, in particular the president's "Making Home Affordable Program" (MHA), has taken the lead as the primary "financing" tool for helping families avoid foreclosure. In the city of Chicago, nearly three quarters of the successful foreclosure interventions that NHS counselors secure for their clients are achieved through a loan modification. In order to help the maximum number of borrowers qualify for the plan, NHS pioneered the first-in-the-country loan modification outreach event on May 2, 2009. Approximately 25 percent of the attendees were from the suburbs, some of whom drove nearly two hours to get advice and assistance. In the role as leader of the RHOPI Financial Products group, NHS worked with several of the other RHOPI leaders to host a similar event targeting home owners in West Cook County on August 29, 2009, that was hosted in Cicero, Illinois.

Through three 2009 events, NHS helped 980 home owners submit applications for an MHA loan modification. Many applications are still being processed, but already over 141 loan modifications have now been confirmed—47 from suburban attendees. An analysis of data collected at these events showed that 82 percent of attendees had contacted their lender previously; 48 percent had spoken to their lender at least four times; and 56 percent had attempted to apply for a loan modification before attending the event. These findings suggest that home owners have difficulty in obtaining needed assistance on their own.

NHS is also looking beyond just the tools needed to help families currently facing foreclosure to what financial products will be necessary to repair the neighborhoods and houses that have been affected by foreclosure. As part of a regional application for the second round of Neighborhood Stabilization Program (NSP) funds, NHS has proposed to offer second mortgages to families purchasing NSP properties in the suburbs in order to ensure that there is adequate credit available to potential buyers. NHS is also exploring new potential partnerships that would help existing home owners gain access to credit to make home repairs, even when the value of their home has dropped so significantly that they no longer have the necessary equity for a conventional loan.

Forecasts project that foreclosures may begin to level off in 2010, but the neighborhoods and communities that have been affected will feel the effects for much longer. RHOPI and HOPI in the city are important components to developing solutions to this ongoing and ever-changing challenge.

Biography

Christen Wiggins joined NHS of Chicago in 2004 as the director of innovation, evaluation, and public policy. In this capacity she manages special projects and new initiatives for the organization, including the Homeownership Preservation Initiative, outreach to immigrant communities using ITIN lending, suburban expansion, program evaluation and government relations. Ms. Wiggins holds a BA from the University of Virginia, where she majored in political and social thought, and a master of public policy from the University of Chicago Irving B. Harris Graduate School of Public Policy.

RHOPI Partners

Over 100 individuals representing more than 70 organizations assisted in defining the strategic priorities of Regional HOPI in the fall of 2008. These partners, along with others, continue to be involved in developing solutions to the foreclosure crisis for the Chicago metro area via on-the-ground solutions and cross-sector and inter-jurisdictional coordination.

Affordable Housing Corporation of Lake County
Allstate Bank
Bank of America
Bethel New Life
Brighton Park Neighborhood Council
Business and Professional People for the Public Interest
Chase Bank
Chicago Community Loan Fund
Chicago Housing Authority
Chicago Metropolis 2020
Chicago Metropolitan Agency for Planning
Chicago Metropolitan Housing Development Corporation
Chicago Rehab Network
Chicago Volunteer Legal Services Foundation
Community and Economic Development Association
Community Investment Corporation
Community Savings Bank
Chicago Metropolitan Housing Development Corporation
Comptroller of the Currency
Community Investment Corporation
Cook County Department of Planning
DePaul University, Institute for Housing Studies
Diversity Inc.
DuPage Homeownership Center
Federal Deposit Insurance Corporation
Federal Reserve Bank of Chicago
First American Bank
Genesis Housing Development Corporation
Goss Advisory Services LLC
Harris N.A.
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Park Bank Initiatives
Policy Lab Consulting Group LLC
Polk Bros. Foundation
Prairie State Legal Services, Inc.
Rockford Area Affordable Housing Coalition
Rogers Park Community Development Corporation
ShoreBank
South Suburban Mayors and Managers Association
Southwest Development Association
Spanish Coalition for Housing
State Treasurer's Office
The Chicago Bar Foundation
The Chicago Community Trust
The Chicago Urban League
The Resurrection Project
United Way of Metropolitan Chicago
Urban Land Institute Chicago
U.S. Department of Housing and Urban Development – Chicago Regional Office
Vasys Consulting Ltd
Village of Cicero
Village of Oak Park
Village of Riverdale
Village of Tinley Park
Wilbur Wright College
Woodstock Institute

Listed organizations subscribe to the strategic priorities of Regional HOPI, but do not necessarily endorse every individual initiative or effort spurred by Regional HOPI. To become a member, e-mail Kelly Clarke at kmclarke@sbcglobal.net

Examining the Role of Foreclosure Counseling in the Foreclosure Crisis

by J. "Michael" Collins

Over the past decade, the "American Dream" of home ownership was extended to persons and groups for whom this dream had been elusive in previous decades. Innovations in the credit market, a relaxation of lending standards, and booming housing values spurred record numbers of home sales in almost every region. But as housing values decreased and employment markets slackened in 2007, the "American Dream" turned sour. According to the Mortgage Bankers Association's National Delinquency Survey (NDS), the share of single-family, owner-occupied, first-lien mortgages starting foreclosure reached a new record in the second quarter of 2009. The NDS data show approximately 3.6 million mortgages were seriously delinquent out of 44.7 million loans outstanding, and 1.9 million loans were in the formal foreclosure process.

As the housing crisis has escalated in the late 2000s, one strategy that has been promoted for addressing the problem of mounting foreclosures is the provision of mortgage default counseling for consumers. There are several rationales for the provision of counseling as a means of preventing foreclosure, especially for mortgage borrowers unfamiliar with the mortgage market or facing severe resource constraints. Counseling has the potential to connect borrowers to public services as well as to lender-provided alternatives to foreclosure, of which consumers may be unaware. Counselors can assist home owners in navigating the bureaucratic requirements of the various programs to assist distressed home owners. Counseling also may provide an external review of a consumer's budget to aid in the development of cash flow for servicing mortgage debt.

Why offer counseling?

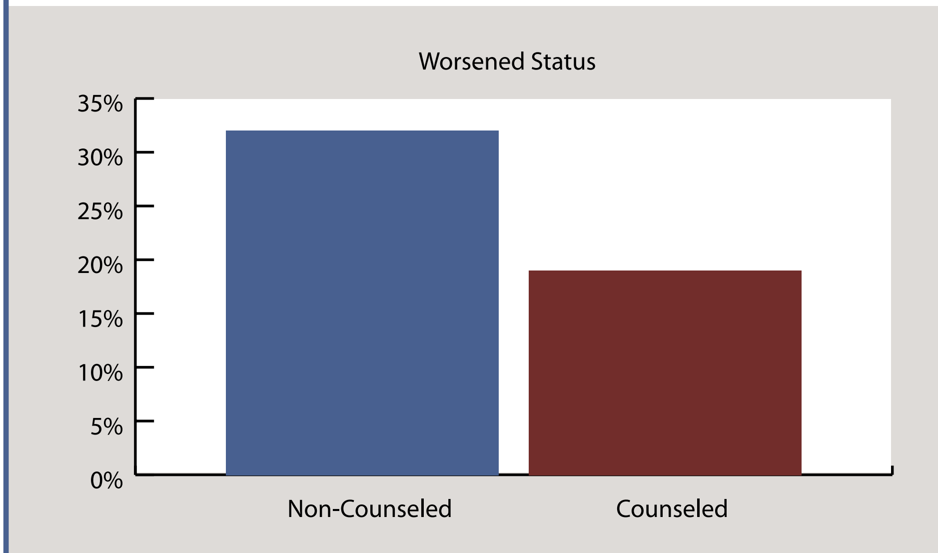
There is a range of roles and rationales for offering publically-funded default counseling. A common policy rationale for providing default counseling is that mortgages are complicated financial contracts, and many consumers may struggle to comprehend their rights and obligations. Some consumers, particularly those with little experience or knowledge of dealing with financial issues, may not know what steps to take when facing mortgage default and therefore need help before moving forward. To the extent counseling is targeted to these populations, and is then effective in improving decision making, default counseling may play an important role providing technical explanations and advice.

A second rationale for default counseling is that consumers in distress may not know what public programs and supports are available to them. The counselor has repeated experiences with clients and expertise on an array of programs available. Given that these loans in default are being negotiated by private lenders with individual borrowers, there certainly could be challenges for historically underserved borrowers – lower-income and minority borrowers in particular – who lack experience and knowledge of dealing with a lending institution. Many likely received their loan from a third-party mortgage broker and have no direct connection to a lender. This lack of knowledge may result in a failure to seek alternatives to foreclosure. Thus, default counseling may help people overcome information failures in order to access programs designed to assist people with financial problems.

A third rationale for default counseling is to aid people at a time of intense emotional distress. Mortgage borrowers facing financial distress often exhibit anxiety from not being able to pay bills, as well as the trigger event causing the disruption in payments (job loss, health emergency, etc.). Such a psychological state creates a tendency to focus on immediate issues and ignore other information. Focus groups conducted with low- and moderate-income borrowers in default in Chicago provide illustrations of this phenomenon. Borrowers described no longer answering phone calls, avoiding answering the door and "sticking all my mail (unopened) in the couch." Borrowers described being "paralyzed" and simply "waiting to be kicked out." They either did not notice attempts by their lender to make contact, or became so anxious about what might happen that all contact was avoided. If the borrower can connect to a default counselor, the counselor can relay the importance of paying attention to the situation and taking action. Thus counseling can help connect borrowers to their lender and begin to implement a strategy for repayment or another alternative to simply waiting for the foreclosure auction.

A final rationale for default counseling policies is that the counselor may play an

Figure 1: Loan Status



Source: *NHS of Chicago Inc., RealInfo Sample July 2009, n=817.*

important role as a trusted advisor at a time when the borrower is unsure of who to trust. Particularly in the case of a nonprofit, third-party counseling agency, the consumer may view the counselor as more objective and trustworthy than a lender or other entity. The borrower may be more willing to divulge information to a counselor about his economic situation than he would to a lender. Counselors may be able to explore more sources of income, as well as a wider range of spending reductions available compared to a lender. This process could result in borrowers being able to free up more cash flow for repayment. For borrowers for whom repayment is unlikely, the counselor may provide an unbiased assessment, as well as guidance on trying to sell the home. In interviews, counselors frequently mentioned that an important question in every session is, "do you really want to keep this house?" As opposed to a lender or real estate professional who may benefit depending on the borrower's next steps, the counselor could be viewed as an unbiased source regarding the decision to repay, sell, foreclose, or seek another alternative.

One leading provider of default counseling is Neighborhood Housing Services (NHS) of Chicago. This agency has provided housing counseling for over two decades, and has been a leader on default counseling and mortgage foreclosure mitigation since 2003. Drawing upon its years of experience providing counseling services and home ownership preparation workshops, NHS has been at the forefront of The Home Ownership Preservation Initiative (HOPI) with the city of Chicago, Federal Reserve Bank of Chicago, and financial institutions. HOPI has led to a number of innovations and insights for housing counseling and loss mitigation programs. In 2009, the agency collected public records for a random sample of clients who attended counseling services from January 2008 through March 2009, as well as clients who had properties with recorded subprime mortgages at risk of default, but did not contact NHS for help. The data gathered on clients and the comparison group included information from RealInfo, LLC—a Chicago area provider of on-line real estate information. The RealInfo data contained detailed information on the client's mortgage, and any legal action on the property, such as a lis pendens (suit/legal action pending) or foreclosure, as of July 2009. The combined data set, after the elimination of observation with missing data, contained a sample of 695 home owners, of whom just over two-thirds received mortgage default counseling.

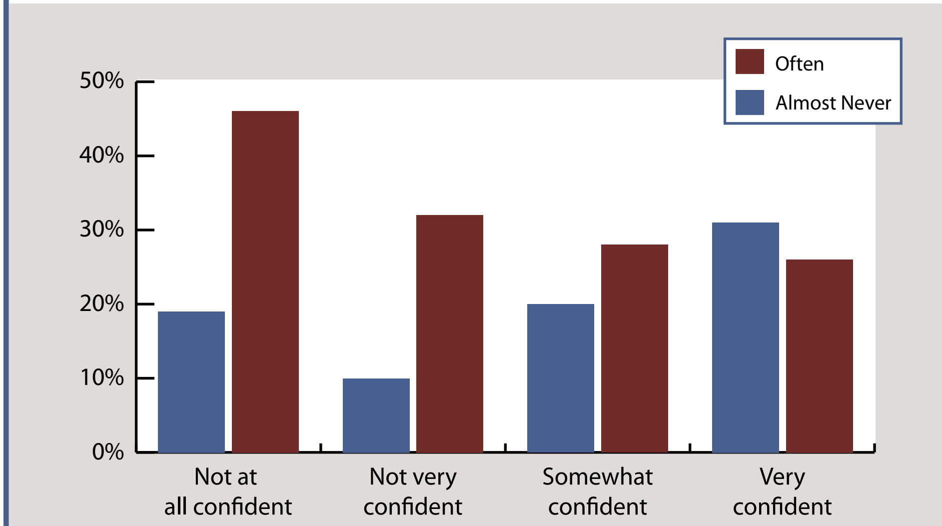
What are the effects of counseling?

Establishing a causal link between counseling and mortgage outcomes is difficult. Those consumers who seek counseling have historically been the most disadvantaged borrowers, with the least ability to cure their mortgage delinquency. Moreover, many consumers do not seek counseling until well into the foreclosure process, limiting the ability of counselors to improve outcomes. Figure 1 compares the rate of properties in the RealInfo data moving from no foreclosure action to a foreclosure filing, or from a filing to a completed foreclosure. It includes outcomes for NHS-counseled and noncounseled borrowers who were offered counseling. Loans that have achieved a worsened status are those that have gone from no filing to a lis pendens or from a lis pendens to a foreclosure. The data suggests counseled borrowers are less likely to see their status worsen from January 2008 until June 2009. This is suggestive of a positive impact of counseling on slowing or even reversing the foreclosure process for borrowers in default. More careful analysis controlling for borrower types and neighborhood factors suggests counseling may indeed be associated with loans avoiding foreclosure at least within an 18 month period.

Understanding borrower circumstances

In June and July 2009, NHS mailed a two-page survey to 880 households, eliciting 235 completed survey forms (a 27 percent response rate). This built on a similar survey conducted by NHS in 2005. These survey responses provide further evidence of the circumstances and needs of borrowers in the current environment. In 2005, 51 percent of clients who came to NHS had never talked to their mortgage servicer. In contrast, in 2009, 86 percent of

Figure 2: Loan Status



Source: *NHS of Chicago Inc., RealInfo Sample July 2009, n=817.*

borrowers reported contacting their servicer before coming to NHS for help. Media attention, outreach efforts by lenders and servicers, and programs such as HOPI all likely have contributed to higher levels of communications between borrowers and loan servicers. This suggests borrower need counseling less as a way to make contact with their lender than to take actions to avoid foreclosure.

Figure 3: "Very" willing to do to avoid foreclosure

Take a second job	61%
Take in border (tenant)	26%
File for bankruptcy	25%
Cash out retirement funds	24%
Sell belongings	21%
Sell my home	18%
Borrow from friends/family	17%

Source: NHS of Chicago Inc., 2009 Client Survey, n=211 (June/July 2009).

An important factor counselors may need to address is the level of stress borrowers face. The NHS survey included four questions about how often borrowers experienced physical symptoms of stress such as headaches, insomnia, fatigue, and backaches. Figure 2 shows the majority responded that they experienced these manifestations of stress at least sometimes. Contrasting borrowers' sense that they will avoid foreclosure with stress indicators shows that borrowers with the least hope also show the most stress symptoms. Overcoming stress can be a major obstacle to taking action for borrowers; counselors may help people make tough choices under duress.

The survey also asked clients to indicate how willing they would be to try different options in order to avoid foreclosure. Figure 3 shows that most borrowers are very reluctant to sell their home. The most preferred option by far was to take a second job. Of course, in the current labor market, this option may be the least available to borrowers. One role of counseling may be to connect borrowers to additional services. Another may be to help borrowers understand alternatives to foreclosure may include selling the home. Exiting from home ownership without the damage to credit history stemming from a foreclosure may make selling the home a better option.

Loan modification counseling

With the advent of the Making Home Affordable (MHA) Program in March 2009, NHS has developed new approaches to default counseling. The MHA Program does not require counseling except for borrowers with high total debt payment to income ratios (55 percent of income or more). But the opt-in nature of the program means that borrowers must apply for a loan modification to their lender. Navigating the application process is time consuming and often complex. Otherwise distressed borrowers have initially been slow to apply to the program. In this context, nonprofits have begun to focus on encouraging borrowers with a documented hardship to apply for the program. The "Fix Your Mortgage" Program provided one-day events for home owners in the summer and fall of 2009. A point of service survey conducted at one loan modification event held June 6, 2009, provides an illustration of these events. Clients were offered the survey form during waiting times; out of 369 clients attending the event, 141 completed a survey (38 percent). The event was advertised city wide as an opportunity to receive help from volunteer real estate professionals to apply for a loan modification under the federal MHA Program. Clients called to register for the event and were instructed as to what documents were required. The goal of the event was to screen clients for eligibility for the program and to submit applications to lenders for qualified borrowers.

Figure 4 shows that about a third (34 percent) of respondents to the survey were current on their mortgage – the remainder were behind, and 18 percent were in foreclosure. Notably 82 percent of respondents had been in contact with their lender prior to the event; 48 percent

Figure 4: Loan Modification Survey Summary Statistics

Loan Status	n (excluding missing)	% of responders
Behind on payments	67	47.9%
Current	48	34.3%
Foreclosure started	25	17.9%
Contact with Lender		
Contacted lender	112	82%
4+ contacts	54	48%
Attempted to apply for modification	75	56%
Rating of Lender Helpfulness if Contacted		
Low	63	55%
Fair	29	25%
Good	16	14%
High	7	6%

Source: NHS Chicago 2009 "Fix Your Mortgage" Survey

have attempted to work with their lender four or more times. Just over 56 percent had attempted to complete a loan modification application before coming to the event. This suggests these borrowers may have been frustrated by the loan modification process and needed technical help to complete the required paperwork. Indeed, 55 percent of those respondents who had tried to work with their lender prior to the event rated their lender's helpfulness as "low" and 25 percent as "fair." Only 20 percent suggested ratings of "good" or better. This suggests borrowers in distress may need more than to make contact with their lender, but actually need assistance in navigating the loan modification application process.

New forms of volunteer counseling focused on a single action, such as having submitted a loan modification, may also help push borrowers into pursuing alternatives to foreclosure. One day face-to-face events offer the opportunity to organize documents (physically) and complete paperwork for submission. These events may serve as a complement to borrowers engaged in ongoing counseling, or simply provide an important step to encourage borrowers to take preventive actions. The mode and format of the counseling can be increasingly calibrated to the needs of clients, and intensive work, especially if it involves preparing and organizing documents, can be completed in person. Meanwhile general advice and an explanation of technical terms and processes may be best delivered on the telephone.

When dealing with loan-by-loan modifications, counseling may become more of a mechanism for borrowers to understand and accurately complete documents for lenders in order to seek and maintain a formal mortgage modification. This might necessitate greater outreach efforts to seek borrowers not in contact with lenders or counselors, as well as forms of face-to-face services, which include less intensive education and advising, and more intensive document review and preparation.

Default counseling going forward

Although it has existed since the 1960s, default counseling has grown and changed rapidly in just the last three years. An influx of federal subsidies to address a boom in foreclosure filings has stimulated the supply of counseling, at a time when a growing group of consumers may benefit from counseling. There are several compelling rationales for the provision of counseling to overcome information barriers and to potentially avoid negative externalities of foreclosure.

The impact of counseling must be kept in perspective; no amount of advice can overcome an inability to earn enough income to repay a loan. Nevertheless, existing studies and data collected among counseled borrowers suggest at least modest short run positive impacts on loan performance, and borrowers receiving counseling perceive it has been generally helpful.

Biography

J. "Michael" Collins is an assistant professor in the School of Human Ecology at the University of Wisconsin, Madison. He is the faculty director of the Center for Financial Security, a faculty affiliate of the Institute for Research on Poverty and of the La Follette School of Public Affairs. He is a family finance specialist with Wisconsin Cooperative Extension. Dr. Collins studies consumer decision making in the financial marketplace. He also studies financial education and financial coaching provided to low-income clients in a variety of social service settings, funded by the Annie E. Casey Foundation. He holds a master of public policy from the John F. Kennedy School of Government, a PhD in policy analysis and management from Cornell University, and a BS in education from Miami University (Ohio).

Around the District

ILLINOIS

Study reports Peoria is a resurgent city

At a recent Peoria area community economic development roundtable forum, local banking, housing, economic, governmental, regulatory, nonprofit, and for-profit organizations met to discuss their respective financial programs, products, services, and institutional needs.

Rick Mattoon, a Federal Reserve Bank of Chicago senior economist and economic advisor, delivered the keynote address, "An Outlook on the U.S., the Midwest, and Peoria." Mattoon cited a study from the Boston Fed entitled, "Reinvigorating Springfield's Economy: Lessons from Resurgent Cities." The report classified Peoria as one of ten resurgent U.S. cities from which the city of Springfield, Massachusetts, could draw valuable lessons. The report stated that across the ten cities, industry mix, demographics, and geography were not the dominant factors in their renewal. Rather, the principal factor is social capital – leadership from government, nonprofit, and business sectors.

INDIANA

Foreclosure prevention workshop

As part of the Federal Reserve Bank of Chicago's Indiana Money Smart Week, on October 21, 2009, the Bank's Community Affairs division participated in a foreclosure prevention workshop, which was hosted by the Indiana Foreclosure Prevention Network. The event, held in Indianapolis, provided participants with an opportunity to meet face to face with their lenders in an effort to find alternatives to possible foreclosure proceedings. In addition, participants waiting to meet with lenders were provided with presentations throughout the day on topics including: the Role of the Federal Reserve's Community Affairs Division, Money Smart Week, Strategies for Rebuilding your Credit, and the Rights of Consumers Facing Foreclosure.

IOWA

Iowa continues to support tourism as economic development engine

As we reported in April of this year, Iowa continues to attract tourists in significant numbers, fueling economic development as a result.

One of the vehicles Iowa uses to support tourism is a state fund called the Vision Iowa Program. This program, according to a news release of September 9, 2009, by the Office of the Governor, "…provides financial incentives to communities for the construction of recreational, cultural, educational or entertainment facilities that enhance the quality of life in Iowa." The news release further states that, under the program called Community Attraction and Tourism (CAT), the fund has already provided 322 grants for over $120 million to leverage local and private funds. Iowa's governor, Chet Culver, announced that a $96,000 Vision Iowa grant will go to the city of Belle Plaine for construction of a new recreational aquatic center. The total project will cost over $2.5 million and is expected to be completed by next summer. For more information, see www.iowalifechanging.com, or contact Troy Price, Governor's Office, at (515) 725-3085 or troyprice@iowa.gov.

MICHIGAN

New foreclosure Web site

The Detroit Office of Foreclosure Prevention and Response (FPR) has created a new Web site to help residents learn about intervention, counseling, and mortgage modification and refinance options, and to encourage them to take action. Every day, hundreds of Detroit families face imminent foreclosure, and the challenge of finding an affordable means to hold onto their family home. Unprecedented home price declines and the overwhelmingly negative economic climate in Detroit have led many families to simply walk away.

The purpose of this Web site is to help families keep and stay in their homes by connecting people to one centralized location with free information and resources. The foreclosure Web site will provide the facts about the foreclosure process: what to do if help is needed, how to work with lenders, locate free housing counselors, and avoid foreclosure rescue scams.

According to the Detroit Office of Foreclosure Prevention and Response (FPR) Web site, it is "an independent public/private model serving as a centralized clearinghouse to share tools, resources, and recommendations to leverage and enhance the work of our dedicated partners throughout the city of Detroit to reduce the effects of the foreclosure crisis on families and neighborhoods."

FPR does not provide direct service to individuals. To view the Web site, go to www.foreclosuredetroit.org.

WISCONSIN

SBA ARC Loans more popular in Wisconsin

The U.S. Small Business Administration (SBA) recently released data showing a higher level of participation in Wisconsin, by both lenders and borrowers, in the SBA's America's Recovery Capital (ARC) Program. With 220 loans made by 68 different lenders, Wisconsin is the second highest user of the program behind Minnesota.

The ARC Loan Program was created in the American Recovery and Reinvestment Act of 2009. ARC loans are interest-free loans of up to $35,000, with principal payment deferred for up to 12 months and 100 percent guaranteed by the SBA. The loans are intended to help eligible small businesses weather economic trouble by helping to make payments on existing loans.

For a complete list of participating lenders by and the total number of ARC loans made by state, visit www.sba.gov/idc/groups/public/documents/sba_homepage/sba_recovery_arc_lenders.pdf.

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