

National Foreclosure Mitigation Counseling Program Evaluation

Does Foreclosure Counseling Help Troubled Homeowners?
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National Foreclosure Mitigation Counseling (NFMC) Program

- Special federal appropriation, administered by NeighborWorks® America.
- Over \$480 million to support rapid expansion of foreclosure counseling.
- Since January 2008, over 1 million homeowners have received NFMC counseling.
- Urban Institute evaluating first two NFMC rounds (2008-2009), with focus on client outcomes.
 - Latest report: <http://www.urban.org/publications/412276.html>

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Outcome Analyses

Does the NFMC program help homeowners:

- Cure an existing foreclosure?
- Receive loan modifications that result in lower monthly payments?
- Receive loan modifications that cure a delinquency or foreclosure and remain current afterwards?

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Data Sources & Methods

- Production data on clients served by NFMC Grantees and Sub-grantees in 2008 and 2009.
- Servicer data on mortgage characteristics and monthly performance (LPS data) observed through December 2009.
- HMDA, Census, BLS and FHFA to determine additional borrower, neighborhood and MSA-wide characteristics, such as changes in labor and housing market conditions.

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Data Sources & Methods (cont'd)

- From these sources we produced two samples:
 - NFMC sample of 180,000 loans matched to LPS data.
 - Non-NFMC sample of 150,000 comparable mortgages selected with a statistical method that matches characteristics of NFMC clients to non-NFMC loans using observable characteristics.
- Findings use statistical techniques to compare outcomes between NFMC clients and unassisted owners who have observable characteristics that are similar to NFMC clients.

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Counseling Increases Likelihood of Foreclosure Cure

Odd ratios of Logit model that estimates the month-to-month probability of a loan in foreclosure moving to a non-foreclosure status

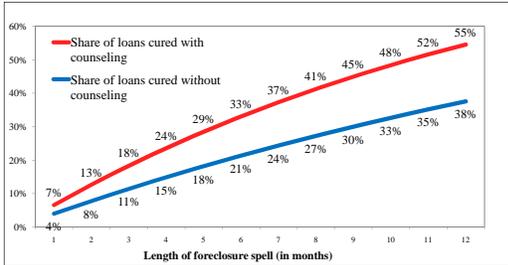
| | Odds Ratio | 95 Percent Confidence Interval | |
|----------------|------------|--------------------------------|-------|
| Any Counseling | 1.696 | 1.641 | 1.752 |
| Level 1 | 1.635 | 1.576 | 1.695 |
| Level 2 | 1.737 | 1.666 | 1.812 |
| Level 3 | 1.781 | 1.710 | 1.854 |

Note: All Odds Ratios are statistically significant at $p < .05$.

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Counseling Increases Likelihood of Foreclosure Cure (cont'd)

Estimated share of typical loans in foreclosure cured



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Counseling Improves Quality of Loan Modifications

OLS estimates of changes to reductions in monthly payments resulting from NFMC counseling

| | Point Estimate | 95 Percent Confidence Interval | |
|----------------|----------------|--------------------------------|-------|
| | | | |
| Any Counseling | \$267 | \$251 | \$283 |
| Level 1 | \$214 | \$193 | \$236 |
| Level 2 | \$265 | \$238 | \$292 |
| Level 3 | \$335 | \$311 | \$359 |

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Sustainability Analysis

Our analysis addressed two questions of interest about sustainability:

1. How does counseling affect the likelihood of sustaining loans that were cured by modifications?
2. How does counseling affect the likelihood of troubled loans turning out well, both cured of defaults and sustained in those cures?

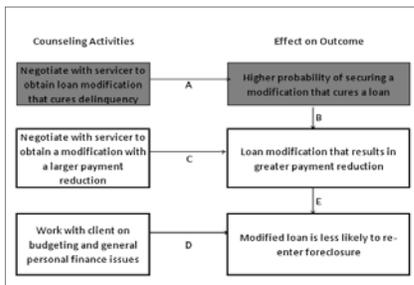
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Sustainability Analysis (cont'd)

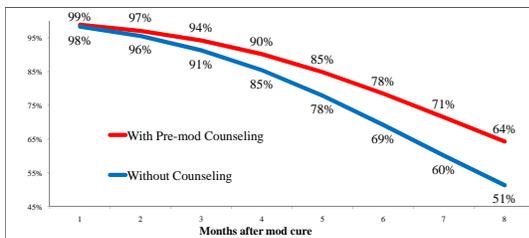
- We analyzed Round 1 clients and observed their loans' performance through December 2009.
- We identified loans that were cured from either a serious delinquency or foreclosure with a loan modification, watching whether they again ran into trouble.
- We defined "recidivism" as a loan that either entered foreclosure or became seriously delinquent after the loan was cured with a modification and "sustainable" as cured loans that did not.

Sustainability Analysis (cont'd)



Counseling Increases Likelihood of Remaining Current

Estimated share of typical loans that received a modification curing a serious delinquency or foreclosure and remained out of serious delinquency or foreclosure after the modification



Sustainability Conclusions

- Counseling does at least three things to improve sustainability of loans:
 - Raises the cure rate for loans being modified, preparing more loans for potential cure-and-sustain outcomes;
 - Increases the size of the reduction in mortgage payments in modified and cured loans, with a resulting positive impact on sustainability, and
 - Raises sustainability of modified and cured loans additionally outside of the effect on loan payment level, presumably through financial counseling and some limited financial assistance.

Additions and Improvements

- Extending the data and modeling.
 - Re-default model using Round 1 and 2 loans observed through 2010.
 - Cures and sustainability without loan modifications.
 - Foreclosure avoidance (hazard models).
- Applying methods and models to other interventions.
 - Currently studying the impact of the HAMP program on foreclosure outcomes and on the impact of counseling on those other outcomes.
- Directly addressing the program participation selection and unobservables issue
 - Using pre-counseling comparison between counseling clients and others.

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