National Foreclosure Mitigation Counseling Program Evaluation

Final Report, Rounds 3 Through 5

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EXECUTIVE SUMMARY

The National Foreclosure Mitigation Counseling (NFMC) program is a special federal appropriation, administered by NeighborWorks® America (NeighborWorks), designed to support a rapid expansion of foreclosure intervention counseling in response to the nationwide foreclosure crisis. The NFMC program seeks to help homeowners facing foreclosure by providing them with much-needed foreclosure prevention and loss mitigation counseling. The objective of the counseling services provided to clients is to determine the most appropriate solution, given a client’s circumstances and aid them in obtaining this solution. NeighborWorks distributes funds to competitively selected Grantee organizations, which in turn provide counseling, either directly or through Subgrantee organizations.

Given NFMC’s status as a federal appropriation, NeighborWorks must inform Congress and other entities of the program’s progress. In 2008, NeighborWorks selected the Urban Institute (UI) to evaluate the first two rounds of funding (rounds 1 and 2)—this evaluation was completed in 2011.¹ NeighborWorks subsequently retained UI in 2012 to complete an evaluation of the next three NFMC program funding rounds (rounds 3 through 5). This report for rounds 3 through 5 presents analyses for borrowers who received NFMC program counseling between July 2009 and June 2012; the outcomes for these clients were observed through June 2013.

Because the NFMC program’s major objective is to help homeowners identify and implement the most appropriate solution for their particular circumstances, there are multiple possible outcomes for any given NFMC client. In some cases the client and counselor may try to secure a loan modification or cure a seriously delinquent mortgage. In other cases the owner may not want, or may not be able, to stay in his or her home and seek a solution that results in a short sale or other outcome in which the owner moves from his or her home. The key to interpreting the NFMC program’s outcomes is to be cognizant of the fact that there are no “one-size-fits-all” solutions for owners seeking NFMC counseling services. Rather, counselors and clients work on a case-by-case basis to identify and implement the best solution for a given circumstance.

That said, the multivariate statistical analyses presented in this report, based on a sample of close to 240,000 loans, answered questions regarding the extent to which NFMC counseling helped clients achieve the following outcomes:

- Did NFMC counseling help clients receive loan modifications?

• Did the NFMC program help client homeowners receive loan modifications with larger payment reductions than non-NFMC owners?

• For borrowers with troubled loans, did NFMC counseling increase their chances of obtaining a cure?

• For cured loans, are NFMC clients better able to sustain these cures and avoid redefault or transition to Real Estate Owned (REO)?

• For clients that do not wish to or cannot remain in their homes, does NFMC counseling help clients close short sales?

• For NFMC clients that do not cure their mortgages or execute a short sale, do NFMC clients resolve their situation more quickly than without counseling?

According to the evaluation of rounds 3 through 5 NFMC program effects, the answer to all six outcomes is “Yes,” as detailed in the following table:

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2 Real Estate Owned (REO) properties are those held by a bank, government agency or mortgage insurer after an unsuccessful foreclosure sale.
Table ES-1: NFMC Program Impacts on Mortgage Outcomes, Counseled Compared to Non-Counseled Households

<table>
<thead>
<tr>
<th>NFMC Impact</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Change in odds of receiving a loan modification</td>
<td>2.83 times greater</td>
</tr>
<tr>
<td>Annual savings for NFMC clients resulting from loan modifications</td>
<td>$518M</td>
</tr>
<tr>
<td>Change in odds of curing a troubled loan&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Loan modification cure</td>
<td>1.78 times greater</td>
</tr>
<tr>
<td>Non-modification cure</td>
<td>1.86 times greater</td>
</tr>
<tr>
<td>Change in odds of redefaulting on the following cures:</td>
<td></td>
</tr>
<tr>
<td>Loan modification cure</td>
<td>70 percent smaller</td>
</tr>
<tr>
<td>Non-modification cure</td>
<td>72 percent smaller</td>
</tr>
<tr>
<td>Change in percentage of troubled loans both curing and sustaining cures</td>
<td>2.9 times greater</td>
</tr>
<tr>
<td>Change in NFMC clients’ probability of completing a short sale once started</td>
<td>21 percent greater</td>
</tr>
<tr>
<td>Change in the odds of completing the REO process for an NFMC client unable to cure a troubled loan</td>
<td>15 percent greater</td>
</tr>
<tr>
<td>Change in the odds of completing the REO process for an NFMC client able to cure a troubled loan</td>
<td>56 percent smaller</td>
</tr>
</tbody>
</table>

<sup>a</sup>A troubled loan is 90 or more days delinquent, in foreclosure, or in REO status.

**Loan Modifications**

After entry into counseling, NFMC clients were much more likely to receive modified mortgages: the odds of such owners receiving a loan modification was 2.83 times as large as the odds of a modification for those not receiving NFMC counseling. This was not the only benefit NFMC clients received regarding loan modifications. NFMC clients who had a loan modified after entry into NFMC counseling received a payment reduction that was $61 a month greater, on average, than non-counseled owners.

Each NFMC owner who received a loan modification had his or her annual payment reduced by about an average of $4,980. We estimate that nearly two-thirds of the 151,000 loan modifications that NFMC clients received after entry into counseling would not have happened at all without the assistance of their counselor. This means that NFMC counseling helped an estimated 96,000 NFMC clients secure a loan modification they could not have secured on their own—saving these clients, in total about $478 million annually. When combined with the $61 per month ($732 annual) savings for NFMC clients that would have received a loan modification without the assistance of a counselor but with less favorable terms on average, the total annual savings for NFMC clients generated by loan modifications is about $518 million.
Modification Cures

Modification cures bring a troubled loan current through loan modification. NFMC counseling improved the likelihood that a client would receive a modification cure for a troubled loan—that is, a loan 90 or more days delinquent, in foreclosure, or in REO status. The odds for NFMC clients of getting a loan modification cure increased by 1.78 times when compared to owners who did not receive NFMC counseling. Translating these relative odds to cumulative percentages of modification cures, after 16 months (the average observation period for loans after they became troubled), 7.1 percent of NFMC clients with troubled loans received a loan modification cure, compared to 4.0 percent of non-NFMC owners.

Non-Modification Cures

NFMC counseling also increased the odds of a client receiving a non-modification cure for a troubled loan: the odds increased by 1.86 times when compared to a non-NFMC owner. When translating the change in odds to cumulative percentages over 16 months, 12.1 percent of NFMC clients cured a troubled loan without a loan modification, compared to 6.7 percent of non-NFMC owners.

Sustainability of Modification Cures

The combined effect of counseling—from a larger payment reduction and other counseling assistance—substantially reduced (by approximately 70 percent) the odds that borrowers would return to troubled loan status after receiving a loan modification that cured their troubled loan. Virtually all of the improvement in sustained loan performance for cures results from NFMC counseling during which clients received help to improve their financial management skills, manage relationships with servicers and investors, and received other types of support. These services contributed substantially to better post-cure performance, while counseling’s contribution to larger mortgage payment reductions through loan modification had almost no separate effect on sustaining loans cured through modification. This indicates that it is not the amount of the additional payment reduction itself that is the primary factor contributing to improved sustainability, but the other supports and assistance provided by counseling. When translated into probabilities, the cumulative redefault rate for troubled loans cured with the help of an NFMC counselor was 63 percent less than for non-NFMC owners who cured with a loan modification.

Sustainability of Non-Modification Cures

NFMC counseling also substantially increased the sustainability of loans cured without a loan modification in circumstances where the owner is able to pay-off the arrearages. The odds of redefault to a troubled status for non-modification cures were 72 percent lower than for non-counseled borrowers. The stronger performance of non-modification cures underscores the importance of services provided by NFMC counselors beyond helping owners secure more generous loan modifications. Measured by the probability of redefault, the cumulative redefault
to a troubled status rate for typical NFMC-counseled loans that cured without a loan modification was 63 percent lower than for non-counseled owners.

**Achieving and Sustaining Cures**

A crucial outcome for borrowers is both curing loans in serious delinquency or foreclosure and sustaining those cures (i.e., avoiding redefault). When the results of the curing and sustainability analyses are combined, they demonstrate that NFMC counseling more than doubled the rate of curing and sustaining. Among counseled borrowers, 14.1 percent of troubled loans were cured and sustained without redefault, compared with only 4.9 percent among non-counseled borrowers’ loans—a ratio of 2.9. Moreover, as discussed below, borrowers who cured with the help of an NFMC counselor (with or without a loan modification) are less likely to transition to REO than are non-NFMC owners.

**Short Sales and Completing the REO Process**

For some NFMC clients, the most appropriate solution is not to remain in the house. Instead, clients may want to, or be forced by mortgage costs too high for their incomes to, move from their home either after completing a short sale or allowing the foreclosure process to run its course resulting in an REO sale. The multivariate analyses show that NFMC clients who pursue a short sale are more likely to complete one than are non-clients. The probability of completing such a sale in any given month is about 21 percent greater with NFMC counseling when compared to non-NFMC owners.

The overall effects of the program show no differences in overall likelihood of transition to REO. This finding results from two counterbalancing impacts that contribute to the overall rate of REO transition. First, NFMC clients who are able to cure troubled loans are less likely to have an REO completion than non-NFMC owners; the odds for such an outcome are reduced by 56 percent. On the other hand, NFMC clients with troubled loans that cannot cure are able to resolve their problems through a foreclosure completion more quickly than non-NFMC owners. The odds for such NFMC clients completing an REO are about 15 percent greater than for non-NFMC owners who cannot cure a troubled loan. This result means that borrowers who are not good candidates for a cure have their cases resolved more expeditiously, thereby reducing backlogs in the foreclosure processing system. Counseling’s lack of impact on overall rate of REO transition represents the combination of these two impacts: increased numbers of curing and sustaining loans, instead of REOs, and acceleration of clients moving to REOs where foreclosure avoidance is not feasible.
Conclusion

The National Foreclosure Mitigation Counseling program started in 2008 at the beginning of the nation’s foreclosure crisis. The purpose of the counseling funded by the program is to help clients determine and implement the most appropriate solution to dealing with troubled mortgage loans, given their financial and personal circumstances. As reported in the evaluation of rounds 1 and 2, the program had very positive effects for clients who received counseling from NFMC in the early period of the initiative. Similar analyses for rounds 3 through 5 reported here, looking at clients who received counseling between July 2009 and June 2012, indicate that the program continues to help its clients, who are significantly more likely to achieve positive outcomes than similarly situated homeowners who did not receive NFMC counseling.

NFMC clients with a troubled loan were more likely to cure this problem, both with and without loan modifications, than were owners in the comparison group. This is different from the previous study in which we found that NFMC clients were more likely than non-clients to cure with a loan modification but less likely than non-clients to cure without a modification, still yielding a positive net impact on cures. It may be that counselors are now more adept at identifying clients who are good candidates to cure their troubled loans without a modification than in the period studied in the rounds 1 and 2 evaluation.

As with the previous study’s findings, cures of these troubled loans are more sustainable over time—owners who cure their troubled loans with the help of an NFMC counselor are less likely to have their mortgage return to a troubled status than comparison group owners. Moreover, NFMC clients received loan modifications with larger payment reductions than did borrowers in the comparison group who received loan modifications without the assistance of NFMC counselors. In addition, our analyses indicate that NFMC counselors help their clients receive loan modifications they would not otherwise have received, which provide significant (an average of $4,980 per year) savings for each additional modification.

Remaining in the home may not always be the best outcome; some clients may not be able to sustain even reduced mortgage payments. Counselors also helped in these situations. NFMC clients were more likely to complete a short sale than were non-NFMC owners. For clients who could not cure a troubled mortgage, NFMC helped them resolve their cases more quickly, thereby reducing the time spend in an unresolved status.

The findings showing the positive effects of NFMC rounds 3 through 5 counseling are compelling, as, since 2008 when the NFMC program started, lenders and servicers have expanded their capacity to serve borrowers who face hurdles in keeping up on their mortgage payments. One might have hypothesized erroneously as this study demonstrated that this change to the industry made counseling relatively less important, as owners who did not participate in counseling presumably also benefited from the improved ability of lenders and
servicers to evaluate and undertake appropriate loan workout solutions. Given this industry shift, the continued positive effects of NFMC counseling, even for owners who received such services as late as mid-2012 (more than four years after the crisis started), is an impressive finding.