

New England Community Developments

Emerging Issues in Community Development and Consumer Affairs

Foreclosure Prevention and Intervention Efforts in New England

By Kai-yan Lee

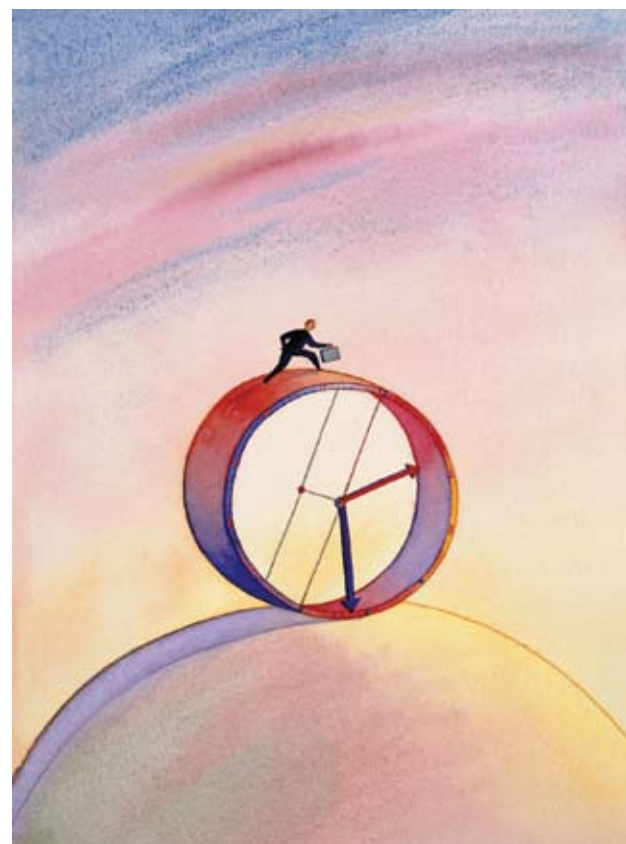
The billboard features a cross-stitch design of a Georgian red brick home against a floral backdrop. Above the house, “Home Sweet Home” is inscribed in calligraphy. The warm picture stands in contrast to the cold warning stamped on the advisory: “Don’t Lose Your ‘Home Sweet Home’ to a Bad Loan.”

*Readers’ Survey
See back cover*

This was an early advertisement for the Don’t Borrow Trouble consumer awareness campaign introduced in 1999 to help homebuyers and homeowners in the Boston area avoid inappropriate mortgages and

Of the borrowers who called the agency’s Don’t Borrow Trouble hotline, 16 percent were already in delinquency and 30 percent in the process of foreclosure.

predatory home loans. The City of Boston and the Massachusetts Community and Banking Council, an association of banks and community organizations working to encourage investment in lower-income areas, collaborated on the original campaign. Under the leadership of Freddie Mac, the program has gone nationwide and provided public awareness materials to 30 states and the District of Columbia.



The Don’t Borrow Trouble campaign is one of many foreclosure prevention and intervention efforts around the nation. Broadly speaking, these efforts are aimed at meeting the needs of potential homebuyers, borrowers with high-cost loans, borrowers who are struggling to make their home mortgage payments, and/or victims of

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predatory lending. The programs and services can include referral hotlines that connect borrowers to useful resources; consumer awareness campaigns; homeownership and foreclosure prevention education and counseling services; refinancing programs for borrowers; legislative actions to strengthen consumer protections; research; and more.

As foreclosure rates have risen across New England and the nation, particularly in lower-income areas, consumers, policymakers, and organizations engaged in anti-foreclosure efforts have been asking for clarification about the full range of resources available to borrowers. This article describes the types of foreclosure prevention and intervention efforts existing in New England as of early October 2007. The information was gathered from interviews with over 30 practitioners from more than 20 organizations. We highlight many of the region's largest initiatives, as well as a few smaller ones, to inform

readers of the range of resources available. It should be noted that there are other smaller and localized programs working hard to meet consumers' needs.¹ We conclude with a discussion of the types of challenges anti-foreclosure programs are facing as they work to provide assistance to consumers.

Referral Programs

Referral programs are often the first point of contact for people looking for information about homeownership or how to avoid a foreclosure. These programs act as "gateways," connecting consumers to other foreclosure prevention and intervention services.

Although not used exclusively for foreclosure intervention, the United Way's "211" telephone information system provides callers with a toll-free, one-stop referral to a wide array of social services, including housing assistance programs. The 211 hotline is currently operating in 42 states (though some operate locally rather than statewide), including Connecticut, Maine, Massachusetts, Rhode Island, and Vermont. New Hampshire is expected to establish a 211 network in 2008. Consumers with questions about homeownership and home preservation can call the 211 number and be connected to local resources. According to John Nimmo, assistant director of the Homeownership Connection in Rhode Island, the 211 program can be especially helpful to borrowers facing a potential foreclosure. This is because families experiencing mortgage delinquency are often undergoing other personal and financial troubles, and the 211 system helps them get connected to multiple resources.

Some local groups also operate referral programs. One group that recently initiated a referral hotline is the Brockton Housing Partnership in Massachusetts, a consortium of 11 credit unions, banks, and nonprofit organizations that is engaged in increasing the Brockton area's affordable housing inventory. Leo MacNeil is senior vice president at HarborOne Credit Union, one of the Partnership's members. According to MacNeil, English, Spanish, Portuguese, and French speakers can call the hotline (508-586-6080) and leave voicemails with their questions or concerns. Then, a staff member who speaks the caller's language will return the call and provide referrals to financial education and home counseling programs. MacNeil stresses that the multilingual component of this program is crucial for meeting the needs of the community, given the large numbers of immigrants living in the area.

Consumer Awareness, Education, and Counseling

Consumer awareness campaigns and homeownership and anti-foreclosure education and counseling services are designed to provide consumers with information they need to make good decisions about financing home purchases and avoiding foreclosure.

As described above, Don't Borrow Trouble is a national public awareness program operating in many states. Freddie Mac encourages state and local campaigns to modify the original marketing

Figure 1: Don't Borrow Trouble Resources

National Web Site: www.dontborrowtrouble.com

New England Lead Agencies:

- Connecticut: 211 (United Way)
- Massachusetts: 617-635-4663
(Boston Home Center, only for the Boston area)
- New Hampshire: 866-623-1302
(New Hampshire Housing Finance Authority)
- Rhode Island: 888-722-1461
(Housing Network of Rhode Island)

materials to fit local needs. Many organizations use these materials to complement other services that they offer. Local organizations interested in participating in the Don't Borrow Trouble campaign can contact their state's lead agency or the national office at Freddie Mac. See Figure 1 for this contact information.

NeighborWorks America, created by Congress in 1978 as a national nonprofit, provides assistance to over 240 community-based organizations in its network, some of which engage in homeownership education and anti-foreclosure counseling. Specifically, NeighborWorks provides financial support, technical assistance, and training for community-based revitalization efforts. The NeighborWorks Center for Foreclosure Solutions also builds capacity among foreclosure counselors around the nation, conducts outreach campaigns to reach struggling homeowners, researches local and national trends to develop policy recommendations, and works with some local leaders to create sustainable foreclosure intervention programs. Borrowers can call the referral hotline (1-888-995-HOPE) to be connected to NeighborWorks' resources, including member organizations in the caller's local area.

In general, anti-foreclosure counseling tends to be specialized and time-intensive. David Deziel, director of communication and development at the Consumer Credit Counseling Service of New Hampshire and Vermont, estimates that a typical case takes about 10 hours of counseling. This can include evaluating the client's financial strength, researching programs available and appropriate to the client's situation, discussing alternative solutions with the client, and sometimes negotiating with the lender on behalf of the client for forbearance, term modification, short sale, and other alternative solutions.

Many of the borrowers seeking counseling are financially disadvantaged and see the counselor as a last resort. For instance, of the 938 cases that the Homeownership Connection of Rhode Island and its affiliate organizations received in the first three quarters of 2007, about 29 percent were from low-income families and approximately 52 percent were from very low-income families. Many counselors emphasize the need for widespread availability of effective homeownership education programs to help this cohort of consumers. Counselors hope that borrowers who learn about financial planning and how to avoid inappropriate loans in the first place will be better positioned to avoid foreclosure in the long run.

Refinance Products

Borrowers with prime mortgages typically have the opportunity to refinance with lenders. However, some borrowers of high-cost loans may find it difficult to refinance into a product that would be more suitable for them, particularly given the recent softening in the real estate market. This issue is exacerbated for borrowers also having difficulty making their mortgage payments. In general, nonprofit and private sector institutions have been reluctant to offer refinance programs for borrowers of high-cost loans because of the higher financial risk associate with these borrowers.²

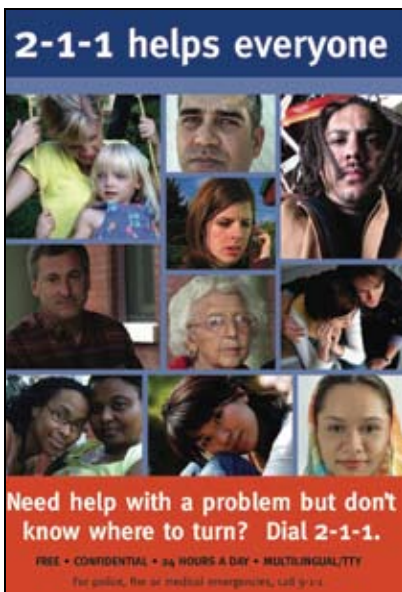
Some state housing agencies are providing an opportunity for borrowers of high-cost loans to refinance, though most of these programs are designed exclusively for victims of predatory loans. Massachusetts is one of the few states in the nation and the only one in New England that operates such a program. In July 2007, MassHousing, Massachusetts' affordable housing lender, announced the provision of \$250 million in refinance products for victims of predatory lending through its Home Saver program. Approximately three quarters of this funding will come from Fannie Mae, while MassHousing will sell bonds to cover the remainder. MassHousing plans to have a relatively small number of originators participate in this program, about 20, to ensure effective collaboration and efficient oversight.

The program has strict qualification requirements. Several of these are listed in Figure 2. Kevin Mello, senior manager of asset management at MassHousing, estimates unofficially that perhaps 10 percent to 20 percent of applicants will pass the initial screening to determine if they have been victims of predatory lending. Applicants would then be evaluated using MassHousing's underwriting criteria. MassHousing expects that about 10 percent of the applicants who pass the initial screening would eventually meet its underwriting criteria.³ In total, MassHousing

Figure 2: MassHousing Refinance Product Eligibility Guidelines (Partial)

- Restricted to victims of predatory loans
- Borrower must meet minimum credit score (e.g., 560 for single family/condo)
- The loan size must be under the maximum cap (e.g., ≤ \$417,000 for single family/condo)
- The borrower must earn less than the income cap (TBD)
- If the borrower is behind on loan payments, the payments must be fewer than 60 days late and the delinquency must be the result of the loan resetting into a higher rate

Call 1-888-995-HOPE to find out more



hopes to underwrite about 1,500 loans under the new program.⁴

It has been difficult for many state housing agencies in New England to develop refinance products. As explained by state housing finance agency officials, the following are some of the reasons for this difficulty:

- Limited authority: Many state housing finance agencies are chartered to use funds only for affordable housing and first-time home buyer programs. Legislative action,

often a lengthy and uncertain process, would be required to allow them to offer refinancing products.

- Low cost-effectiveness: The number of victims of predatory lending that would meet housing agencies' underwriting criteria is probably low, so it is difficult to justify the cost-effectiveness of a refinance program.
- Difficulty distinguishing the target population: Agencies worry that they might not be able to distinguish between true victims of predatory lending and borrowers who knowingly took on a lot of risk and are now trying to salvage part of their failed investment.
- Political concerns: Officials are also sensitive to the criticism of rescue products, namely that they could appear to be wasteful "bail-outs" and would only delay borrowers' financial problems rather than solve them. Many agencies are also simply taking a wait-and-see approach to avoid political attention.

Other Initiatives

While referral programs, education and counseling services, and refinance products are among the more commonly discussed anti-foreclosure programs, organizations are also engaged in a number of other initiatives.

Legislative and Regulatory Action

Several New England states have taken legislative and regulatory action in recent months in response to rising foreclosures. In April 2007, Massachusetts Governor Deval Patrick directed the Massachusetts Division of Banks to seek case-by-case foreclosure

stays for homeowners who file complaints with the banking division.⁵ In June, Governor Patrick filed legislation to criminalize mortgage fraud, prohibit abusive foreclosure rescue schemes, and strengthen consumer protections. Also in June, the Maine legislature passed a law that establishes fiduciary duty for lenders and brokers and strengthens consumer protections for high-cost loan borrowers. In July, New Hampshire passed a law tightening regulations on foreclosure consultants and pre-foreclosure conveyance, while Connecticut issued regulatory guidance on underwriting standards, management practices, and consumer protection provisions for subprime loans (see the New England Updates section for details on the New Hampshire and Connecticut legislative and regulatory actions).

In addition, several actions taken on the federal level are likely to impact New England. In April, the member regulatory agencies of the Federal Financial Institutions Examination Council issued a joint statement encouraging financial institutions to conduct prudent workout arrangements, consistent with safe and sound lending practices, with residential borrowers failing to meet their contractual mortgage payment obligations.⁶ In July, the U.S. Securities and Exchange Commission issued an opinion allowing more flexibility on the accounting rule known as FAS 140, encouraging lenders and servicers to become more proactive in modifying loans and helping borrowers avoid foreclosure. In August, President Bush announced that the Federal Housing Administration will expand its refinancing program to borrowers with strong credit histories who made timely mortgage payments but defaulted after their loans reset to higher interest rates. The Administration expects the program to help an estimated 240,000 families avoid foreclosure.

Research and Analysis

New England has numerous research institutions producing high-quality work about foreclosure prevention and intervention. In 2006, research conducted by Coastal Enterprises Inc., a community-based organization in Maine, in collaboration with the Center for Responsible Lending, a research and policy organization based in North Carolina, sparked much public discussion about predatory lending in Maine.⁷ Information from the report was subsequently used in drafting Maine's recent anti-predatory lending legislation.

Harvard University's Joint Center for Housing

Studies, a think tank for housing market and housing policies issues, has been prolific in its research related to fair lending and housing finance. Several of its recent reports propose far-reaching recommendations to revise current regulatory and supervisory frameworks for a more efficient and fair mortgage market with reduced delinquency risk.⁸

Most foreclosure research focuses on urban areas, but rural areas are not exempt from predatory lending and high rates of foreclosures. The Carsey Institute at the University of New Hampshire, in conjunction with the Housing Assistance Council, a national rural housing nonprofit located in Washington, D.C., has researched predatory lending practices in rural New England that are associated with delinquency and foreclosure.⁹

The Federal Reserve Bank of Boston offers a wide variety of resources related to foreclosures, including consumer awareness literature, referral information to homeownership and home preservation education and counseling services, quantitative analysis of mortgage and foreclosure data, and a number of articles and papers on mortgage markets, foreclosure trends, and related public policy issues.¹⁰ See Figure 3 for links to the research mentioned in this section.

Rental Assistance

Although not always thought of as foreclosure intervention, rental assistance can provide critical help to borrowers losing their homes to foreclosure or who use foreclosure prevention strategies such as short sale or deed-in-lieu, as well as to renters who are displaced when landlords are forced to foreclose on apartment buildings. Some affordable housing organizations that own and/or manage rental units provide rental assistance programs. The Concord Area Trust for Community Housing (CATCH) in New Hampshire, an affordable housing nonprofit that owns about 200 apartment units, gives special consideration to families with histories of delinquency that are the result of predatory loans. While it does not give preferential treatment to these families, it will not disqualify them because of their history when reviewing rental applications. Instead, CATCH will evaluate their applications in the context of recent events in the mortgage market.

Lawrence Community Works (LCW) of Massachusetts is concerned about the community effects of increases in foreclosures. Kristen Harol, deputy director of LCW, explains that her organization is considering a proposal to buy a pool

of foreclosed homes in the community (probably at least 20 properties). Some of these homes would be retrofitted for resale, but others would be kept in LCW's portfolio of affordable rental apartments. These affordable units could also provide more housing options to families who have experienced foreclosure.

Challenges Ahead

There is much variety in the types of foreclosure prevention and intervention programs being offered, as well as in the organizations that are sponsoring them. Some of these programs have been in operation for over a decade, while some are still in the conception stage; some are nationwide programs, while some are targeted to specific neighborhoods; some are public programs, while some are spearheaded by nonprofit or private institutions. Despite the fact that these programs differ in their history, scale, and nature, many of them share common challenges.

Effective Outreach

Time is of the essence in foreclosure intervention, but many borrowers seek help too late. Andrew Cadorette, education coordinator at the New Hampshire Housing Finance Authority, notes that for the borrowers who called his agency's Don't Borrow Trouble hotline in the first three quarters of 2007, about 16 percent of them were already in delinquency and an additional 30 percent were in foreclosure or entering foreclosure by the time they called. There are many reasons why it is difficult to get borrowers to seek help earlier. Counselors suggest that some of the major reasons include:

- Self-denial: Counselors note that many borrowers know there is assistance available to them but do not seek help because they have difficulty admitting their financial troubles and the possibility of losing their homes.

Figure 3: Select Foreclosure Research Resources

- Carsey Institute:
<http://carseyinstitute.unh.edu/>
- Center for Responsible Lending:
<http://www.responsiblelending.org/research>
- Coastal Enterprises Inc.:
<http://www.ceimaine.org/content/view/61/102>
- Federal Reserve Bank of Boston:
<http://www.bos.frb.org/commdev/foreclosures>
- Harvard Joint Center for Housing Studies:
<http://www.jchs.harvard.edu/publications/finance>
- Housing Assistance Council:
<http://www.ruralhome.org>

- **Competitive marketing environment:** David Deziel of Consumer Credit Counseling Service NH-VT explains that it is difficult for counseling agencies, which often have limited outreach budgets, to compete for attention in a market saturated with aggressive commercial mortgage advertisements. In addition, consumers are not always certain which advertised counseling programs are legitimate and which programs are scams, deterring them from seeking help.
- **Hit-or-miss outreach:** Many counseling agencies target their outreach to high-risk neighborhoods but use a passive strategy (e.g., mass mailing to all high-risk borrowers in a high-risk neighborhood). Few are able to identify and proactively reach out to specific overextended and near-delinquent borrowers before it is too late.

Capacity Constraints

There is some concern that, if foreclosure rates continue to rise, this will test the capacity of intervention programs. George Helwig, director of home ownership programs at CATCH, explains that his agency has only three counselors, so a 20 percent increase in foreclosure cases would push its counseling services close to their capacity limit. Ray Neirinckx, coordinator of the Rhode Island Housing Resources Commission, shares that many counselors have been asked to take on foreclosure counseling in addition to their other work in affordable housing, community development, and personal finance education. Neirinckx also explains that because foreclosure intervention is highly individualized, in order to build up organizations' capacity for counseling, it is necessary to develop professional staff with sufficient expertise to tailor individualized solutions. Connecticut's banking commissioner, Howard Pitkin, who currently co-chairs Connecticut's Sub-prime Mortgage Task Force, agrees that many foreclosure intervention agencies have limited capacities, and it is a challenge for them to look for additional resources while at the same time trying to meet the increasing demand for counseling. Despite these capacity constraint concerns, counselors still urge borrowers to seek help early.

Collaboration

Foreclosure intervention efforts could benefit from a more coordinated multi-stakeholder, multi-sector approach. However, some organizations running these programs are strapped for resources

and find it difficult to actively seek out collaborative opportunities. Lenders, originators, and servicers who have information about borrowers who are at risk of delinquency can refer these borrowers to counselors. Counselors can benefit from more systematic channels to connect with servicers for the purposes of developing loan workouts. Andrew Cadorette of the New Hampshire Housing Finance Authority has been experimenting with a system that allows him to connect borrowers (and counselors) to the appropriate lender and servicer personnel quickly: He is developing a list of key contacts at lending and servicing institutions and providing this to counselors across the state. Stephen Pike, senior vice president at North Easton Savings Bank of Massachusetts and a long-time board member of the Brockton Housing Partnership, indicates that collaboration has helped the Partnership come up with effective intervention efforts. He explains that the group's multi-sector membership allows it to continually explore opportunities for addressing multiple aspects of the foreclosure problem.

Limited Information

Another challenge, especially for financial institutions and state housing finance agencies, has been the limited information available about high-cost loan borrowers who could potentially qualify for a refinance product. Financial institutions and others interested in getting these borrowers into more appropriate loans are uncertain about how many of these borrowers there are and how many are financially sound enough to refinance. As such, they have difficulty reaching these borrowers. Research conducted by the Federal Reserve Bank of Boston indicates that some borrowers who received subprime loans may qualify for lower-cost loans. This is because they either started out with strong credit scores or improved their scores after having made regular mortgage payments. Moreover, despite the recent dip in housing prices, some borrowers may have accumulated sufficient equity over time to refinance. As such, the Boston Fed is encouraging banks to help provide refinancing to borrowers who qualify.

This article documents some of the foreclosure prevention and intervention efforts currently underway in New England for the purpose of illustrating the range of activities undertaken by these programs. It is difficult to estimate the effectiveness of these programs, but there are



conclusions about how to strengthen their impact going forward. For example, most counselors agree that educating consumers about the risks of getting into inappropriate mortgages is more effective than trying to help them refinance after they have taken out a bad loan. The Boston Home Center, the City of Boston's homeownership and home preservation resource center, suggests that its home purchase and homeownership education classes affirm this principle. Of the 44,000 people who have gone through the Home Center-affiliated education classes over the last decade, only about 0.7 percent have suffered from foreclosures. It is possible that there will be more lessons learned during this season, and nonprofit, public, and private organizations can use these lessons to adapt their programs and strengthen their ability to help borrowers in the future.

Kai-yan Lee is a senior research associate at the Federal Reserve Bank of Boston.

Interviewees

The author is grateful for the assistance provided by the following individuals. The views expressed by these individuals do not necessarily reflect the positions of their agencies.

Cristina Amedeo, Kamila Baryzkowski, and Hank Sennott,
United Way of Rhode Island

Andrew Cadorette, Elizabeth A. Lamoureux, and Dan Smith,
New Hampshire Housing Authority

William Cotter, *Department of Neighborhood Development,*
City of Boston

Kevin M. Cuff, *Massachusetts Mortgage Bankers Association*

David Deziel, *Consumer Credit Counseling Service NH-VT*

Carla Dickstein and Hanna Thomas, *Coastal Enterprises Inc., ME*

Bill Easty, *Crescent Credit Union, MA*

Lance George, *Housing Assistance Council, DC*

Chris Hannifan and John Nimmo, *Housing Network/
Homeownership Connection, RI*

Mossik Hacobian, *Urban Edge, MA*

Kristen Harol, *Lawrence Community Works, MA*

George Helwig, *Concord Area Trust for Community Housing, NH*

Paul Horwitz, *Federal Deposit Insurance Corporation, MA*

Gary Lever and Paul Mina, *United Way of Massachusetts Bay and
Merrimack Valley*

Will Lund, *Maine Office of Consumer Credit Regulation*

Leo A. MacNeil, *HarborOne Credit Union, MA*

Kevin P. Mello, *Massachusetts Housing Finance Agency*

Peter Merrill, *Maine State Housing Authority*

Ray Neirinckx, *Rhode Island Housing Resources Commission*

Stephen Pike, *North Easton Savings Bank, MA*

Howard F. Pitkin, *Connecticut Banking Commissioner*

Len Raymond, *Homeowner Options for Massachusetts Elders*

Mayté Rivera, *Massachusetts Division of Banks*

Jim Wheaton, *Neighborhood Housing Services of Chicago*

Endnotes

- 1 For example, the U.S. Department of Housing and Urban Development's list of approved agencies in New England includes more than 80 organizations that engage in counseling for loss mitigation, mortgage delinquency and default resolution, and/or victims of predatory lending. See <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>.
- 2 There are a few exceptions. For example, the Neighborhood Assistance Corporation of America, a nonprofit community advocacy and homeownership organization, announced that it has committed \$1 billion to help borrowers of high-cost mortgages refinance these loans.
- 3 These qualification rates would not be unique to MassHousing. The Neighborhood Housing Services of Chicago, a nonprofit serving the metro area, reports that it was able to help only about 8 percent of its clients refinance and avoid mortgage delinquency or foreclosure.
- 4 In comparison, there were more than 2,100 new filings of foreclosures in Massachusetts in July 2007 alone. While MassHousing's refinance product targets victims of predatory lending, the comparison of this program--one of the largest foreclosure intervention programs in Massachusetts--with new filings of foreclosures is perhaps demonstrative of the challenge of creating a substantial impact through refinance programs.
- 5 The Massachusetts Division of Banks recently reported that the Division successfully persuaded lenders to allow stays on foreclosure proceedings for 399 cases out of the 877 cases that it closed since May 2007.
- 6 Other related guidance includes "Interagency Guidance on Nontraditional Mortgage Product Risks" (September 2006), "Joint Statement on Subprime Mortgage Lending" (July 2007), and "Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages" (September 2007). For more information See <http://www.federalreserve.gov/boarddocs/SRLETTERS>.
- 7 See *Predatory Mortgages in Maine: Recent Trends and the Persistence of Abusive Lending Practices* (2006)
- 8 For instance, see *Mortgage Market Channels and Fair Lending: an Analysis of HMDA Data* (2007) and *Understanding Mortgage Market Behavior: Creating Good Mortgage Option for All Americans* (2007).
- 9 See *Subprime and Predatory Lending in Rural America* (2006).
- 10 For instance, see *Understanding Foreclosures in Massachusetts* (2007).