Early *and* Often

BY INGRID BECKLES

Here's how Cecilia Huddleston of Augusta, Kansas, needed just four weeks to avert a foreclosure, thanks to a revolution spreading through the servicing industry. Last October, Huddleston's husband, Randy, 53, lost his construction job, and the couple was forced to make ends meet on her librarian's salary. After missing a payment on their 7 percent, 30-year, fixed-rate mortgage (FRM), Huddleston took the initiative and called her servicer to discuss the situation. "They told me they wouldn't talk to me until I was two months late," she says. Here's where the revolution comes in. After she spoke to her servicer, Rey Javier, a counselor with Consumer Credit Counseling Service (CCCS) of San Francisco, was on the phone offering her free counseling service. "The first thing I asked Rey was, 'Why would someone in California have my name?,'" says Huddleston. "Rey said he got it through Freddie Mac. I had heard of them. Rey sent over a packet of information that I read cover to cover. I had never heard of housing education before. But Rey was great to work with; he was so calming, and he broke everything down into terms I could understand." Javier helped the Huddlestons write and edit a letter to their servicer explaining why they were appealing for help. He advised them to

A new program has helped 5,700 families avoid foreclosure through early intervention. It is part of an industrywide trend to contact delinquent borrowers early—before they can be defeated by a mountain of overdue payments.

provide a timeline showing when and why their situation would improve. Javier also helped them fill out a packet of information from their lender detailing and documenting (with bank statements) their income and liabilities.

"The only time I was really scared was when the sheriff came out with a notice of foreclosure," Huddleston remembers. "It about made me sick, even though the sheriff was nice and wished us luck. Rey told me it was just part of the process. In fact, if Rey hadn't called, I wouldn't be sitting here in my home."

Huddleston says, "In December [the servicer] gave us a forbearance—that had to be explained to me, not having ever been through this before—until Randy could get a job." The forbearance, plus a 30-day extension in the spring, gave her husband time to find work and time for the two of them to save enough money to pay their mortgage plus the payments they had missed.

Cost of service to the Huddlestons: absolutely free.

An industry of financial first responders

Welcome to the age of early intervention. Many mortgage servicers and their industry partners are taking extraordinary steps much earlier in the process to help borrowers in trouble. One example of this is Huddleston, who is one of the more than 9,400 borrowers who have taken advantage of Freddie Mac's 2-year-old early-intervention program with Javier's organization, the CCCS of San Francisco, and the CCCS of Atlanta.

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Freddie Mac developed its early-intervention initiative with Washington Mutual and other servicers for two reasons. By helping more borrowers avoid foreclosure, it helps us realize our public mission to foster successful long-term homeownership. Second, it is simply good business, according to Steve Champney, senior vice president of default servicing at Washington Mutual Inc., Seattle. "We are looking long-term," he explains, "and we see that a customer helped today is a future depositor tomorrow."

Designed to target delinquent borrowers with affordable mortgages, our early-intervention initiative has enabled 5,700 families to avert foreclosure via forbearance, loan modification, or sometimes a deed-in-lieu or short sale—which is why we made it permanent in June 2006. (Overall, Freddie Mac and its servicers annually help 45,000 to 50,000 borrowers avoid foreclosure.)

This is part of a broader industrywide trend that's transforming servicers into the nation's "financial first responders," preserving homeownership by helping more delinquent borrowers avoid foreclosure in the wake of unemployment, divorce, medical emergencies or other life-changing shocks.

In the wake of surging defaults, servicers are beginning to pay collectors on the basis of how many delinquencies they cure instead of how many dollars they bring in. They're teaming up with nonprofit organizations, which in turn are recruiting and training mortgage professionals to be crisis counselors. Mortgage servicers are banding together, holding joint workout seminars for borrowers and swapping strategies for injecting workouts earlier into the delinquency process.

"In this default cycle, people are coming together and sincerely trying to assist each other," says Champney. "I'm talking to other servicers, to local groups, to national groups, to Freddie Mac and Fannie Mae, because nobody wants to see the customers lose their homes. What we're seeing today is totally unprecedented," he says.

Specifically, by applying workouts sooner, we can keep borrower arrearages lower, expand the range of potential solutions and increase the likelihood of a successful workout. An internal analysis of our own data shows that repayment plans are more than twice as likely to succeed when the borrower is only 30 days late (56 percent) rather than 90 days or more delinquent (27 percent).

More supporting evidence for the value of early intervention comes from CCCS of Atlanta, which tracked the outcomes for 1,800 recent foreclosure-prevention clients. CCCS of Atlanta's preliminary analysis shows the only significant difference between borrowers who went on to foreclosure and those who did not was how soon they entered counseling after their first missed payment. Those who waited 90 days or less were more likely to avoid foreclosure than those who waited until they were four months late, says Michelle Jones, CCCS of Atlanta's vice president of counseling.

"We did not see any significant age, income or demographic differences between those we counseled who later went into foreclosure and those who were able to avoid foreclosure," Jones says.

"The only significant difference was how long they waited before asking for help. These findings go to the heart of the question of why servicers should have an interest in encouraging their customers to get counseling at an early stage of the delinquency," Jones adds.

What's working?

Clearly, early is better. But early is also hard. Some of the challenges were laid out in a 2005 Freddie Mac–Roper Public Affairs survey of 2,031 borrowers with conforming, conventional mortgages. We found 61 percent of the delinquent borrowers didn't know about workouts and almost three-quarters wouldn't call their lenders because they were afraid or embarrassed, or didn't believe the lender could help. This explains why there was no borrower contact with lenders in about half of all foreclosures. (One can only imagine what the comparable statistics might be for subprime borrowers.)

Anecdotal evidence continues to suggest that significant percentages of borrowers are still unaware of workouts or are suspicious of their lenders, despite all of the news coverage and outreach programs that have been launched since our study was released.

"We are continually surprised by the number of borrowers we talk to who say they believe that calling their servicer will actually speed up the foreclosure process and make the loss of their home more likely," says Jones.

All of which underscores the urgency behind industry efforts to promote foreclosure avoidance to the borrowing public while at the same time recentering collections and loss-mitigation operations around early intervention. So the question is: Specifically

Counseling Delinquent Borrowers

How do you recruit and train housing counselors? Here are some tips from Suzanne Boas, president of the Consumer Credit Counseling Service (CCCS) of Atlanta, one of the agencies Freddie Mac uses in its early-intervention program.

Her agency, which annually counsels about 18,000 consumers with serious mortgage delinquency problems, says it's easier to train people with mortgage backgrounds to become counselors rather than the other way around. "They can walk callers through the process from first-hand experience," she says.

The CCCS training program includes classroom instruction, mentoring, self-study, testing and certification by the National Foundation for Credit Counseling.

What is it that CCCS counselors do that makes such a difference? With a number of different counseling providers available, it's a good idea to know what to look for when evaluating a housing counseling provider. Here are 10 functions that Boas says effective, credible housing counselors provide:

1. Act as a neutral third party, encouraging communication between delinquent homeowners and lenders.

2. Provide foreclosure-prevention help that is completely free.

3. Never request the homeowner's title, upfront deposits or contributions of any kind.

4. Offer non-judgmental support, empowerment and clarification during confidential discussions.

5. Actively listen to the homeowners and empathize with their problems.

6. Advise the homeowners of the most likely options for resolving their delinquency.

7. Stress that their lender is *not* eager to foreclose.

8. Encourage the homeowner to focus on saving his or her home, and not to just give up.

9. Review each homeowner's credit standing, income, expenses and assets to develop a workable budget for managing *all* of his or her household expenses.

10. Encourage the homeowner to contact and stay in touch with his or her mortgage company and assist in reaching the right party at the lending institution.

which early-intervention tactics are being deployed by the industry to overcome the anxiety, skepticism and lack of knowledge that keep too many borrowers on the path to foreclosure? And how well do they work?

Overcoming borrower suspicion

Because it's a given that late-paying borrowers have their radar out for lender calls and letters, servicers and their investors are working through nonprofit organizations to make that first contact. Some of these efforts are similar to the one Freddie Mac piloted in 2005 with the two CCCS agencies and seven national servicers.

"Correspondence from Freddie Mac or a local counseling agency is worth more than all the correspondence from the mortgage companies—everything else gets stuck in a drawer and unopened," says Deb Oakley, senior vice president of homeownership preservation at National City Mortgage, Miamisburg, Ohio, one of the seven pilot servicers.

Our approach combines direct-mail explaining workouts and offering free counseling, with follow-up phone calls from the CCCS of Atlanta or CCCS of San Francisco. By introducing the counseling agency, Freddie Mac and the servicer as partners, the letter significantly improves the odds that borrowers will take the counselor's call.

"It puts so much more comfort in the process if the borrower knows they're dealing with a third party picked by Freddie Mac," says Mitch Oringer, vice president of default administration at GMAC Mortgage, Horsham, Pennsylvania.

The results speak for themselves: 40,000 borrowers have been contacted since 2005, and between 25 percent and 30 percent responded. The CCCS of San Francisco, for example, reports a 30 percent contact rate, says the agency's vice president of program services, Rick Harper, who adds, "And we are close to a 60 percent foreclosure-avoidance rate with the ones who work with us. So it is working." (The direct-marketing industry generally considers a 3 percent to 5 percent response rate a success.)

The program's results are also changing the way servicers perceive nonprofit counseling groups, Harper adds. "Lenders who previously saw groups like ours as homeowner advocates working against their interests now see that we can act as facilitators who represent both sides and try to achieve something that's mutually beneficial," he says.

Harper credits new servicer alliances for part of the 15 percent year-over-year jump in foreclosure-related calls his counselors fielded last spring.

Another example of the growing use of nonprofits to reach borrowers with a "call now" message was the June 25 launch of the first-ever national "mortgage workout awareness" public service campaign created by the National Ad Council for NeighborWorks® America, with significant support from a diverse cross-section of the lending industry—including the Mortgage Bankers Association (MBA), Freddie Mac, Fannie Mae, the Housing Policy Council, National City Mortgage, Washington Mutual, GMAC Mortgage, Des Moines, Iowa–based Wells Fargo Home Mortgage and others.

The brutally frank TV and print ads that show families losing their homes or ignoring lender calls warn borrowers that "Nothing Is Worse Than Doing Nothing," and persuade them to call 888-995-HOPE for help. Callers are put in touch with the Minneapolis-based Homeownership Preservation Foundation and five participating nonprofits, including the CCCS of Atlanta and CCCS of San Francisco.

"It's critical to reach out and contact our customers through every possible form of communication," says Patrick Carey, Wells Fargo Home Mortgage's senior vice president of default/retention operations. "Presently, many servicers rely on phone calls, letters, billing statements and, most recently, a national public service ad campaign. In the future, we'll expand that base to include cell phone [contact], text messages and communicating via live chat sessions."

Calling a frightened borrower

Because early intervention succeeds or fails with that first phone call, the challenge, says Harper, "is to make a personal connection in the first 15 seconds—or risk losing the borrower."

To make that connection, Harper's group trains counselors to explain to delinquent homeowners that they are calling to provide a free service that can help the borrower stay in their home. "We don't have a script," he says, "but we do have a philosophy: We aren't doing any good unless we make contact" (see sidebar).

CCCS of Atlanta President Suzanne Boas trains counselors to "key in on what's causing the borrower the most pain and keeping them up at night. We frame the call with the goal of getting a plan in place so they don't have to worry about phone calls from collectors anymore. We go through their financial situation and try to get the servicer in on a three-way call. We'll stay on the phone until the borrower understands the next steps and conveys some sense of confidence that they are ready to take them."

Afterward, she notes, the counselor may explain to the borrower the importance of pulling together pay stubs, tax returns or other financial documents. Counselors will also write letters requesting financial aid from locally available foreclosure-assistance programs, and will assist clients in completing workout packages to present to their lenders.

While servicers and counseling agencies may rely on their reputations to establish their trustworthiness over the phone, Harper says they also train their counselors to give borrowers leery of fraud artists ways to confirm that their offers are genuine. "We give them phone numbers they can confirm with their lender, or tell them to visit our Web site," he says. "Suspicion is an issue that you have to deal with anytime you make an outbound call."

Transforming collectors

On another track, multiple servicers are bringing some of these lessons in-house by training collectors to use active listening techniques and use workout-management programs like Freddie Mac's EarlyResolution® to expedite referrals with recommendations to loss mitigators or, in some cases, do the workout themselves.

"Collectors are increasingly becoming advisers to the customer, offering customized solutions that are unique to the financial circumstances impacting the household. That's very different from what the traditional collector has done," says Wells Fargo's Carey.

Last year, for example, Washington Mutual halved the number of accounts it assigns per collector to 100, and inserted a team of loss mitigators in its collection department to expedite opportunities flagged by its workout-resolution program. The result, says Champney, is that collectors can spend more time per contact, and the process of coming up with forbearance or a modification has been cut to 10 minutes or less.

Going one step further, National City calls its collectors "loan counselors" and evaluates them on their ability to work out each call. The company records all inbound and outbound calls and scores counselors on the basis of their friendliness, helpfulness and knowledge.

"Failing one call can cost a counselor their incentive for the month," says National City Mortgage's Oakley, who notes that, far from complaining about the recordings, counselors depend upon them to defend their performances with difficult clients. "If a borrower complains, and we can listen to the call, we often see that the counselor wasn't the one with the problem," Oakley says.

The lesson, she says, is "If your shop pays on dollars collected, that's what you'll get. But if you incent on forbearance, repayment plans and for qualifying people for more complex loan modifications, that's what you'll get. People do what they're paid to do. If you want a 'work-it-out' culture, then you measure and reward based on that objective."

Timing early-intervention calls

Another lesson being applied involves timing that first call from the collector or counselor. Most of the early-intervention efforts involving financial counseling that we see—including our own—are triggered at the 45th day of delinquency.

The reason: A majority of 30-day delinquencies resolve themselves, so the time and expense of financial counseling is unnecessary. At the same time, waiting until the 60th or 90th day increases borrowers' arrearages and diminishes the potential for a workout solution.

"At 45 days into a delinquency, a customer has a better sense of whether it's a situation that's going to have a short- or long-term impact," explains Wells Fargo's Carey. "That's when we focus on the moment and determine what can be done to prevent the loan from advancing toward a three- or four-month delinquency. The earlier we reach out, the more options we can explore to resolve the problem. The challenge is to interact with our customers at the point when the financial circumstances have not become so overwhelming that the customer becomes resigned that nothing will help."

Jointly sponsoring borrower seminars

Lenders are also co-sponsoring seminars in economically distressed markets where borrowers can learn about workout options and lenders can discuss or execute workout agreements with their customers on the spot. Such seminars are increasingly common in the Midwest, Colorado, Georgia and other delinquency hotspots, and lenders use a variety of outreach techniques to try to drive attendance. (Example: A recent Indianapolis seminar attracted attendees with $25 utility bill gift certificates.)

The key is that the lenders send out workout packages with the seminar invitation, and have loss-mitigation teams there to work with the borrowers who bring them in.

Once the lenders finish their joint panels explaining workout options, the borrowers and lender representatives have the opportunity to meet and attempt to finalize a forbearance, repayment plan or loan modification.

"These seminars can be extremely effective," Oakley says, "because you can bridge a lot of the individual 'fear factor' when you have a servicer representative in a room full of borrowers who show up looking for help."

"What ultimately works best is the layering effect. It's the additional staff, the additional technology, the knowledge and support that local community groups can provide, plus knowing that our common goal is to maintain homeownership," says Washington Mutual's Champney. "Due to the cumulative effect of these efforts, we are seeing a significant increase in the number of customers inquiring about assistance in homeownership retention."

However, no matter what approach or combination is attempted, the critical ingredient for success is a borrower who wants to keep his or her home, says CCCS of San Francisco counselor Javier, thinking about his work with Cecilia Huddleston.

"What made a difference in her case is that Cecilia really followed through with what the lender wanted," Javier says. "If the borrower doesn't follow through—like providing proof of income or writing out a simple hardship letter—the process falls apart."

Back in Augusta, Kansas, Huddleston wonders if that is the reason behind the growing number of empty, foreclosed houses on her street and the surrounding blocks. "I don't know what happened. Maybe the owners didn't care," she says, and pauses. "But I cared. And I felt like I was talking to people who cared, too. I really wish more lenders had programs for borrowers who are serious about keeping their homes." **MB**

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