Sustaining Homeownership: The Promise of Postpurchase Services

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Abstract

The practice of providing postpurchase assistance to homeowners once they are in their homes has been generating increased interest in efforts to preserve the homeownership gains of the past few years. In this article, we document the current state of the postpurchase services industry and identify the essential components of foreclosure prevention and sustainable homeownership programs—the two major types.

Taken together, these essential components provide a framework for the full range of services these programs can provide and identify what needs to be measured in order to evaluate them. This article is based on insights gathered from interviews with national experts and site visits to or extensive phone interviews with nine nonprofits that operate postpurchase homeownership programs.

Keywords: Counseling; Foreclosure; Homeownership

Introduction

The long-standing belief that homeownership provides families and society with significant social and economic benefits, including the opportunity to create wealth, has been the basis for numerous government policies that have directly or indirectly encouraged and supported homeownership in the United States. Since the early 1990s, policies and programs based on this belief, combined with the industry's need to expand market opportunities, have resulted in an unprecedented growth in homeownership among nontraditional borrowers. As a result, homeownership rates during the Clinton and Bush administrations went from a low of 63.9 percent in 1990 to an all-time high of 69.0 percent in 2004, including above-average growth in the homeownership rate of minorities (U.S. Bureau of the Census 2004). The current interest in postpurchase activities is an industry response to concerns about the sustainability of these homeownership gains and the impact on family stability and assets (McCarthy and Quercia 2000). The recent increase in the national home mortgage foreclosure rate also justifies this concern. The foreclosure rate for the third quarter of 2002 for all mortgage types was 1.15 percent, the highest ever recorded (Collins 2003).

Postpurchase homeownership services can be divided into two broad types: (1) programs to prevent foreclosures and (2) programs to sustain homeownership. Foreclosure prevention programs address the needs of homeowners who have encountered problems in meeting their mortgage obligations, generally once they are in default. These programs are designed to improve the financial stability of homeowners and to allow them to keep their homes or, if that is not possible, to find other suitable housing. Foreclosure prevention services provide remedial crisis intervention, primarily through one-on-one counseling delivered in-person, over the telephone, or (less commonly) over the Internet.

Sustainable homeownership programs help homeowners acquire the knowledge and skills they need to maintain and build the value of their housing investment. In addition to an asset-building focus, these programs help homeowners avoid problems and therefore have a preventive focus as well. Typically, training topics include home maintenance and repair, insurance, home safety, budgeting and financial management, and ways to avoid predatory lenders. Sustainable homeownership services are delivered through both group training and individual counseling.

Despite the need for effective postpurchase services, providing them remains a challenge. Unlike the case for prepurchase programs, there are no postpurchase standards, and the variability in program design, financing, and quality has made evaluation across programs difficult.[1] Thus, relative to their prepurchase counterparts, not much is known about the current state of postpurchase services. Basic information is lacking—for example, what activities should ideally be offered, who are the providers, what challenges do they face, and what strategies seem to be working?

[1] The relationship between pre- and postpurchase counseling has not been well examined in the literature. For instance, it is not known whether these two types of programs serve the same populations. In any case, one key informant interviewed for this study stated that effective prepurchase counseling is likely to reduce riskier subprime originations by making borrowers ready for and aware of the alternatives in the prime market. If that is the case, the aggregate need for foreclosure counseling is likely to decrease. See Capone (1996) and Mallach (2001) for early reviews.

Our study aims to address these questions. It is based on information obtained from interviews with 11 key informants and site visits to organizations that operate postpurchase foreclosure prevention and/or sustainable homeownership programs. We began with a short list of key informants whose work was known to us and then expanded that list through their recommendations of others to interview in order to help us identify issues and best practices. The following people were interviewed:

1. George McCarthy, Ford Foundation
2. Michael Collins, Neighborhood Reinvestment Corporation
3. Lowell Yost, Family Housing Fund (Minneapolis) (formerly at the American Homeowner Education and Counseling Institute)
4. Douglas Dylla, Neighborhood Reinvestment Corporation
5. Fran Justa, Neighborhood Housing Services of New York City
6. Allan Mallach, consultant
7. Daniel Fenton, National Foundation of Credit Counseling
8. Mary Holder, Self-Help Credit Union
9. Jeanne Morton, Cleveland Housing Network
10. Lexi Turner, the Housing Partnership Network
11. Margot Saunders, National Consumer Law Center

The following topics were covered in the interviews: the state of the postpurchase counseling and training industry, the ideal goals of postpurchase services, the extent of the mortgage default problem, the impact of new computer-based default intervention technologies, the relationship between prepurchase counseling and postpurchase services, and the identification of important elements of a successful postpurchase program, funding sources, elements of postpurchase services believed to be cost-effective, and the obstacles to implementing more cost-effective programs.

To complement these interviews, we visited the following organizations[2]:

1. Charlotte Mecklenburg Housing Partnership, North Carolina
2. Community Development Corporation of Long Island
3. Community Development Corporation of Utah

[2] Information on one of the programs was obtained through extensive phone interviews instead.

4. Consumer Credit Counseling Service of Greater Atlanta
5. Home Ownership Center, Minneapolis/St. Paul
6. Indianapolis Neighborhood Housing Partnership
7. Long Island Housing Partnership
8. Neighborhood Housing Services of Chicago
9. Neighborhood Housing Services of New York City

We interviewed key members of the program staff, representatives of the program partners, and clients. Sites were chosen based on the experience and current capacity of the organization, interest in participating in the study, innovative elements in the program, geographic diversity, quality of the participant database, and/or reputation as a national leader in postpurchase counseling services.

Overall, the resulting sample is not nationally representative. The goal of this research is thus to derive qualitative, in-depth insights. Given the general paucity of research in the area of postpurchase services, the information gathered through this nonrepresentative, nonrandom sample will be used to derive preliminary insights and hypotheses for future research.

The remainder of this article is divided into five sections. First, we describe briefly a conceptual framework that can be used to study postpurchase service programs. Next, we describe the current state of the postpurchase services industry. Then, we explain what is known about the effectiveness of postpurchase services and identify opportunities for future research. Next, we identify two prototypical models of postpurchase services—one for foreclosure prevention and one for sustainable homeownership—that could be used as a framework for guiding future research and identify key practices for each model. Finally, we identify issues likely to affect the future of the industry and evaluations of it.

A conceptual basis for providing postpurchase services

Generally stated, the goal of postpurchase services is to enhance the long-term viability of the homeownership experience by helping homeowners acquire the knowledge and skills they need to maintain and build the value of their housing investment and by helping those with difficulties meet their mortgage obligations. The impact of these two mechanisms can be understood within the context of the option theoretical model of default and delinquency (Foster and Van Order 1984, 1985; Quercia and Stegman 1992; Vandell and Thibodeau 1985; von Furstenberg 1969).

According to this model, borrowers are thought to have the option to give the house to the lender in exchange for eliminating the mortgage obligation. Whenever the value of the collateral falls below the unpaid principal balance, they are thought to make an economic decision and consider the default option, taking into account all the costs resulting from the default decision. Crisis and other such trigger events are said to force borrowers to evaluate their situation and determine whether the default option is the most beneficial course of action (Vandell 1984).

Sustainable homeownership programs target several of these theoretical considerations. By developing budgeting, debt management, financial, and maintenance skills early on, these programs help reduce the likelihood of future crises and maintain the value of the collateral. Similarly, foreclosure prevention programs target a central aspect of the option-based model by helping borrowers address the underlying cause of the delinquency (e.g., an employment issue or household debt) and by working with lenders to find a more cost-effective alternative to foreclosure.

Broadly speaking, although postpurchase services attempt to strengthen the long-term viability of homeownership by focusing on these key considerations, many structural issues that also affect the viability of homeownership are largely beyond the ability of service providers to address. Low-income households not only have lower incomes, but they also experience great income swings over time.[3] This results from the move toward a service economy with greater job instability and lower wages and from a health care system that leaves families exposed to sudden financial crises. As one key informant stated, "Unless the issue of jobs and wages is addressed, training and counseling will always be palliative measures." Additional structural factors include an aggressive and entrepreneurial credit card industry that offers to meet the short-term credit needs of cash-strapped families but leaves them unable to recover their financial independence in the long run and a rapidly growing predatory mortgage lending industry that continues to offer credit without regard to the best interests of the borrowers.[4] All of these broader issues affect a borrower's ability to maintain a home and meet long-term debt obligations. These issues need to be the focus of a national policy to enhance the services providers can offer.

[3] "During the 1970s, the inflation adjusted incomes of most families in the bottom fifth of the economy bounced up and down no more than 25 percent a year. By the beginning of this decade, those annual fluctuations had doubled to as much as 50 percent" (Gosselin 2004).

[4] We acknowledge an anonymous reviewer for bringing the issues raised in this paragraph to our attention.

Current state of the industry

The roots of the postpurchase services industry can be traced to the 1960s. Its initial impetus was the 1968 Housing and Urban Development Act that allowed the U.S. Department of Housing and Urban Development (HUD) to authorize public and private organizations to provide counseling to participants in the Section 235 low-income homeownership program. In the 1970s, under Section 106, HUD started certifying housing counseling agencies. It also required approved counseling agencies to help implement the Home Mortgage Assignment Program, which permitted a lender to surrender the homeowner's Federal Housing Administration–insured mortgage to HUD for further servicing rather than institute foreclosure proceedings. In 1977 and 1987, HUD broadened counseling services to include single-family homeowners, emergency homeownership, and home equity conversion issues. HUD began funding housing counseling agencies on a regular basis in 1977[5] and appropriated $40 million for approved counseling agencies in fiscal year 2004.[6] HUD's appropriation represents a small fraction of all funding streams available to organizations; additional sources include other federal funding, state and local government sources, private foundations, and investments from the lending industry.

For almost two decades, counseling agencies focused mainly on foreclosure prevention because of high foreclosure rates among HUD's homeownership programs. In the 1990s, however, agencies shifted resources and attention toward prepurchase counseling as a means of expanding homeownership among low- and moderate-income households. As lenders relaxed underwriting standards in their affordable housing lending, they used prepurchase counseling to offset risk (Bunce 2002; Hornburg 2004; Quercia, McCarthy, and Leaman 1998). As a result, postpurchase counseling programs are fewer in number and less extensive than prepurchase programs (Quercia, McCarthy, and Leaman 1998).

As noted by national experts and local postpurchase staff members, the postpurchase services industry can be described along three dimensions: the extent and nature of postpurchase service providers, funding availability and constraints, and innovations in servicing technology.

[5] In 1973, the National Federation of Housing Counselors was created to provide training for its members and to act as a lobby.

[6] Other funding sources include foundations, for-profit financial institutions, and others. Although a complete census of organizations by type of funding received is unavailable, the department recently estimated the number of agencies receiving HUD funding at well over 2,000.

Extent and nature of service providers

Looking at the nation as a whole, several of the experts we interviewed felt that, despite some very strong local programs such as those included in this study, postpurchase services need to be strengthened and made more widely available. These experts also stated that, with some exceptions, postpurchase services tend to be more comprehensive and easier to access in the East and Midwest than in the West and in urban areas more than in rural areas.

In terms of addressing the needs of rural homeowners, the Cooperative Extension Service of the U.S. Department of Agriculture (USDA) currently provides housing counseling services in some locations (Housing Assistance Council 1997). While services vary somewhat by state and county, the emphasis of the Cooperative Extension Service and Rural Housing is generally on prepurchase training and budget management, not on postpurchase counseling. However, because of the mortgage loan expertise available through USDA's Rural Housing offices and the education function of the Extension Service, this is an area in which the Cooperative Extension Service could expand.[7]

A variety of organizations, including nonprofit housing organizations (the majority), community development corporations, and consumer credit counseling agencies, provide foreclosure prevention and sustainable homeownership services. These range from organizations that serve the general public to agencies that concentrate on their own loan portfolio customers and include standalone organizations as well as those that are part of a broader network, such as NeighborWorks, the Housing Partnership Network, and ACORN (Association of Community Organizations for Reform Now).

A number of consumer credit counseling agencies play an important role in postpurchase foreclosure prevention counseling through their debt management services. In particular, their ability to negotiate reductions in unsecured consumer debt with creditors, such as credit card companies, can free up money for homeowners to meet their mortgage obligations. According to our interviews with experts and practitioners in the field, however, a great deal of variability exists among credit counseling agencies in the range and depth of the housing services they offer. A number are working to expand their postpurchase housing counseling capacity in response to increasing demand. However, the overall number of consumer credit agencies with extensive capacity in loss mitigation appears to be small. In some areas, housing agencies and consumer credit counseling agencies have built very productive collaborative

[7] Cooperative Extension programs were excluded from the study because their general emphasis is on prepurchase training.

relationships where housing agencies generally provide expertise in loss mitigation strategies while credit counseling agencies contribute debt management expertise.

Funding availability for and constraints on postpurchase programs

National experts and local service providers agreed that postpurchase programs are severely underfunded at a time when demand has increased significantly. As one key informant stated, "Postpurchase programs are in limbo with regard to funding." A lack of consistent funding, while not the only constraint on building organizational capacity, represents the most important factor limiting the ability of local service providers to meet the growing demand for foreclosure prevention services. Several large-scale service providers expressed confidence that they could easily add organizational capacity to meet demand if funds were available.

Funding appears to be insufficient for agencies receiving HUD funding as well. As a key informant stated in 2003,

> HUD gives organizations an average of $16,000 per year. That is not enough. Most of the cost of postpurchase counseling is borne by the organization itself. Even the additional $40 million is not enough, as most will go to support prepurchase efforts, not postpurchase ones. Moreover, if HUD funding is involved, a counseling agency can't charge lenders a fee for assisting borrowers. HUD's rules need to be changed.

While funding for prepurchase programs is also insufficient, experts feel that it is somewhat easier to find local financial institutions that will contribute to prepurchase counseling programs because they can generate additional mortgage loan customers. The same incentive does not exist for postpurchase programs. Although money can be saved when a delinquent borrower avoids default and foreclosure—experts cited savings of $15,000 to $20,000 (Cutts and Green 2004; Moreno 1995, 1998)—it is difficult to allocate these savings among those who actually benefit when foreclosure is avoided. Typically, loans are sold on the secondary market. In addition, loan servicing may be sold to another company, and many loans are covered by mortgage insurance.

Despite the belief that postpurchase counseling is cost-effective, securing consistent funding continues to be difficult. As one key informant stated,

> I believe that postpurchase counseling is cost-effective for lenders. However, I think that it will be difficult to make a compelling case. Maybe it is effective to the lending industry as a whole, but not to a

> particular lender. Lenders who sell their loans to the secondary market and sell the servicing to another entity have little incentive to be concerned about supporting postpurchase programs. Maybe the secondary market should be paying for it instead and charging lenders and mortgage originators a fee.

This sentiment was shared by another key informant who stated that

> programs are under-resourced. A key reason for this lack of resources is that entities and people benefiting from the services do not pay….The main beneficiaries of foreclosure prevention programs are the secondary market and insurers. Pricing in the secondary and insurance markets already incorporates default risks.

Thus, there is little incentive to support postpurchase efforts.

Since default and foreclosure prevention is also time intensive, counseling and training organizations that are not adequately compensated for this work can be hurt financially. When a borrower becomes delinquent, early intervention is essential to the success of delinquency management counseling programs. However, several of the postpurchase counselors we interviewed said that most delinquent borrowers are not prepurchase clients of the counseling agency and only come to its attention when they are 90 or 120 days delinquent. Managing their delinquency and default at this stage in the process requires an enormous time commitment as well as a high level of staff expertise. Housing counseling agencies are also likely to be working with the more difficult cases, since the simpler ones can often be resolved by the loan servicers themselves.

Agency resources expended in foreclosure prevention counseling cut into revenues generated from prepurchase counseling and loan origination. For this reason, many counseling agencies have made the decision to limit foreclosure prevention counseling to their own loan portfolios. Others provide counseling to the general public but cannot come close to meeting the demand in their service areas. Consumer Credit Counseling Service of Greater Atlanta, a large and sophisticated organization that provides foreclosure prevention counseling, estimates that it could triple the number of housing clients it serves in Atlanta alone if financial resources were not a constraint.

Yet unlike many other postpurchase counseling providers, consumer credit counseling agencies may receive a steady income stream for their services.[8]

[8] This income stream is declining due to competitive pressures. A large number of for-profit entities started offering default prevention services in recent years, resulting in overall smaller fees for services rendered.

Troubled borrowers approach a credit counseling agency and describe their financial situation to a counselor who will often provide financial education and help create a realistic budget. This counseling may be done in-person, by telephone, or through a combination of the two. If the borrower's need for assistance is great, counselors will create a debt management plan, which will often reduce monthly payments. Credit card companies grant counselors the right to create these plans, suspend interest charges, or make other concessions to help a borrower eliminate credit card debt. About one-third of counseled borrowers from National Federation of Credit Counseling agencies will enter a debt management plan (Stanley 2001). The counseling agency then collects money on this repayment plan from the borrower, remits these funds to the credit card company, and receives a percentage of the money collected from the borrower—often called a "fair share" allowance. According to an industry expert we interviewed, this allowance is currently around 7 to 10 percent, down from 11 to 14 percent a decade ago, and is expected to drop even further.

Innovations in servicing technology

In the past 10 years, mortgage lenders and servicers have begun using technological solutions to measure customer risk and improve the servicing of delinquent accounts. Whereas traditionally foreclosure was the primary way to remedy a serious loan default, this new technology allows servicers to more efficiently evaluate other options. It uses historical data to model loan performance based on a number of variables, such as mortgage terms and borrowers' credit scores. Consequently, it can help servicers determine which accounts are most likely to benefit from a workout program, which borrowers will likely take care of the problem on their own, and which accounts will require foreclosure. The consolidation of mortgage loan servicers over the past decade has, in part, fueled investment in this technology, which has led to further reduced servicing costs per account and improved economies of scale (Cutts and Green 2004).

Three technological innovations are used to identify loans that may qualify for workout programs. The first consists of data tracking and management tools that improve the flow of data, such as receipt of periodic payments, into and from a servicer's account database. Another technology consists of credit-scoring tools that regularly review borrowers' credit scores to determine collection and loss mitigation strategies. A third new technology, called scripting, gives collectors the ability to provide a delinquent home buyer with counseling that includes a list of possible workout options for specific loans (Cutts and Green 2004).

These technological innovations have proven very effective. As a result, loan workouts are on the rise. Both Fannie Mae and Freddie Mac report an increase in workouts over the past eight years (Cutts and Green 2004). In 2002, these companies resolved approximately 50 percent of the problem loans they held through workouts (Cutts and Green 2004). It is possible that because these new technologies allow servicers themselves to help delinquent borrowers with easier problems, only those borrowers with the most difficult problems may be left for postpurchase service providers. When asked, postpurchase service providers insist that this technology (and its ability to turn servicers into counselors) does not diminish the need for the counseling and the other personal services they provide for troubled borrowers. A key informant summarized the general ambivalence with regard to these new technologies as follows: "Automated services are a problem in that they remove the human element and may reduce workout options. However, they have been helpful in some places to help identify borrowers who are getting into trouble to help them early."

Effectiveness of postpurchase services

It is clear that there is a great deal of variability in postpurchase foreclosure prevention and sustainable homeownership services across several dimensions. This variability includes the type and depth of services offered, the type of organization providing the service, and the level of available funding. The disadvantage of this high degree of variability is that there is little standardization across the industry. This variability has also made it more difficult to conduct a definitive examination of the effectiveness of postpurchase services.

Over the past 30 years, a number of studies have attempted to determine the efficacy and cost-effectiveness of homeownership counseling, including postpurchase programs (Quercia and Wachter 1996). Almost all of these studies have focused on foreclosure prevention efforts, however. The cost-effectiveness of sustainable homeownership programs remains largely unexamined.[9]

In the 1970s and 1980s, HUD conducted most of this research in response to a large increase in foreclosures and losses in its Section 235 and 236 mortgage insurance programs. Several studies attempted to measure both the

[9] Anecdotal evidence was provided by a key informant who stated that

> for the most part, the goals of sustainable homeownership training are not being met. Building wealth through homeownership is not working well. The home improvement industry does not serve low-income areas well….At the low end of the market, low-income households do not have the skills to maintain and repair the home themselves, or they are unable to manage repairs in the home if done by others. This lack of skills affects their ability to accumulate wealth.

success of postpurchase programs and their cost-effectiveness for the federal government. The last of these studies appeared in 1983. Over the past decade, however, there has been renewed interest in better understanding the impacts of postpurchase services.

Early studies

Most of the information available on the early studies comes from a 1983 HUD publication titled *A Report to Congress on Housing Counseling*, which described and summarized over a decade of studies on the issue. On the basis of the studies reviewed, the report concluded that the overall evidence concerning the effectiveness of postpurchase programs was mixed. To a large extent, these mixed results were thought to stem from the inadequate quality and appropriateness of the data and methodologies used. These problems limited the generalizability of the findings (HUD 1983).

A number of studies in this HUD publication examine the foreclosure prevention efforts for delinquent borrowers in the Section 235 program and conclude that foreclosure prevention had an effect on avoiding mortgage foreclosure, but that results varied greatly across agencies and localities.[10] More narrowly, there is some evidence that troubled borrowers who were referred to a HUD-sponsored counseling program were 16 percent less likely to face foreclosure than those who were not. On this basis, the counseling was found to be a cost-effective policy tool.[11] However, one study found that it may have been the referral rather than the counseling itself that was effective: Those who received counseling and those who were referred but did not receive it had similar rates of foreclosure.[12] In every case, because of data and methodological problems, HUD concludes that the evidence was too weak to generalize broadly (1983).

Two early studies, also reviewed by HUD, examined the foreclosure prevention with a sample of borrowers who were not in the Section 235 program. Findings from these studies were mixed, since some groups of counseled borrowers were found to have greater foreclosure rates than those who did not receive counseling.[13] It should be mentioned that this finding is still possible, even if foreclosure prevention activities are effective. If only the most

[10] Organization for Social and Technical Innovation—OSTI (1974) and Counseling for Delinquent Borrowers II (HUD 1977), cited in HUD (1983).

[11] Counseling for Delinquent Borrowers (HUD 1975) and Counseling for Delinquent Borrowers II (HUD 1977), cited in HUD (1983).

[12] Counseling for Delinquent Borrowers II (HUD 1977), cited in HUD (1983).

[13] National Urban League (1980) and Default Counseling in Detroit (1980), cited in HUD (1983).

desperate cases are referred to counseling and if, among these, those who are more likely not to need assistance refuse counseling, it would not be surprising to see higher foreclosure rates among counseled borrowers relative to other borrowers.[14]

Recent studies

There seems to be a consensus that postpurchase foreclosure prevention counseling improves loan performance (e.g., Moore 1997).[15] This is reflected in the fact that many lenders form partnerships with, and provide funding to, community-based providers of postpurchase foreclosure prevention programs. If faced with an emergency, lenders believe that many borrowers will promptly take care of their default and resume mortgage payments after going through these programs (HUD 1998).

Several recent studies provide some empirical support for this belief. Foreclosure prevention services are found to be effective when traditional measures of success—the ability of the delinquent borrower to stay in the home and the money stakeholders save due to program intervention—are examined. Delinquent borrowers served by programs such as the Mortgage Foreclosure Prevention Program in Minnesota are said to be more likely to stay in their homes. This is particularly true if they receive financial assistance from the program (Mortgage Foreclosure Prevention Program Collaborative 1994). Moreover, over the first six years, the program was estimated to have saved different stakeholders an estimated $9.6 million in avoided foreclosure losses. This compared favorably with estimated program costs of about $2.5 million. Mortgage foreclosure costs range from an estimated $10,000 to $28,000 per foreclosure (in the aggregate), but the costs for the counseling were only $3,300 per delinquent borrower counseled (Moreno 1995). This evidence should be considered suggestive, however, since it was based on simulation analysis rather than actual data.

Foreclosure prevention services have also been found to be cost-effective when two alternative proxy measures—time to resolution and rate of recidivism—are used (Quercia, Cowan, and Moreno 2005). Again, examining the Mortgage Foreclosure Prevention Program experience, the time to outcome compares favorably with those reported elsewhere for the industry as a whole: 12 to 18 months for the industry (Cutts and Green 2004), compared with

[14] National Urban League (1980), cited in HUD (1983).

[15] However, Moore (1997) finds that, among postpurchase service providers, prepurchase counseling was considered more important than postpurchase counseling in sustaining long-term homeownership.

approximately 10 months to resolution for borrowers served by the program. With regard to the rate of recidivism, about one-quarter of borrowers who avoided foreclosure reported being delinquent again 12 months after program intervention, and about one-third were delinquent again after 36 months. Households that did not receive an assistance loan as part of the intervention had a higher incidence of recidivism over time—about 42 percent three years after the intervention.[16]

Rohe, Quercia, and Van Zandt (2002) provide the first substantive look at both postpurchase foreclosure prevention and sustainable homeownership services. These authors evaluated the NeighborWorks Homeownership Pilot program, which was aimed at increasing homeownership opportunities through the so-called "full-cycle lending" system. Under the program, lenders, government agencies, and nonprofit NeighborWorks organizations work together to provide homeownership opportunities as well as to sustain homeownership gains in healthy communities. Postpurchase services were an integral part of the program. Although all of the eight sites studied supported the provision of postpurchase services, only one of the agencies had a formal postpurchase curriculum. However, most agencies provided individual foreclosure prevention counseling when needed (Rohe, Quercia, and Van Zandt 2002).

In their findings, Rohe, Quercia, and Van Zandt (2002) emphasized the diversity of services offered. All programs placed some emphasis on home maintenance training. Some included training on budgeting, although the authors felt that this aspect was underemphasized. Counseling on predatory lending was provided only if the counselor felt that it applied to a specific borrower. In all instances, the skill and knowledge of the counselors were believed to play a critical role in the success of the postpurchase services provided. Overall, the authors conclude that postpurchase counseling was the least well-developed component of full-cycle lending in the eight programs they studied (Rohe, Quercia, and Van Zandt 2002).

Ideal models of postpurchase services

The literature that we have just reviewed suggests that postpurchase services can play a key role in sustaining and preserving homeownership. Lacking from the studies is a fully developed framework or model of postpurchase services that can be used to guide future research. In this section, two prototypical models of postpurchase services are presented—foreclosure pre-

[16] A state's legal framework is an important consideration in predicting foreclosure outcomes (Clauretie 1987; Pence 2006; Quercia, Cowan, and Moreno 2005).

vention and sustainable homeownership. They are based on the insights gained through our interviews with key informants and from the site visits to and interviews with the nine postpurchase service providers throughout the country.

Foreclosure prevention model

In this section, we describe a prototypical model of foreclosure prevention and identify its seven major program components. Foreclosure prevention counseling is the more complex of the two types of postpurchase services that we examined. Done well, it requires the coordination of a wide range of services both within the counseling agency itself and among a variety of partner organizations. It also requires the ability to work effectively with a broad range of clients and to access expertise in a number of complex areas that include loss mitigation techniques, alternative mortgage loan financing products, and legal issues related to predatory lending and bankruptcy.

National and local experts agree that foreclosure prevention services should seek to meet the following goals:

1. To allow homeowners to stay in their homes if at all possible
2. To help homeowners plan an exit strategy into stable housing in cases where they do not wish to or cannot remain in the home
3. To maintain or increase neighborhood stability
4. To help homeowners address underlying issues such as employment problems or household debt to ensure successful homeownership in the long term
5. To help homeowners exit illegal predatory loans and/or refinance into more sustainable, lower-interest loans when that is an option
6. To reduce delinquency and foreclosure rates for the agency's own loan portfolio

Key informants identified seven essential program components that we feel should be included in foreclosure prevention programs:

1. Community and industry outreach
2. Client intake and problem assessment
3. Financial counseling
4. Legal, financial, and employment assistance
5. Negotiation with loan servicers

6. Refinancing education and assistance
7. Evaluation

How these components are organized within individual service provider organizations will depend on a number of complex factors, including the needs of their clientele, available financial resources, relationships with community partners, staff expertise, and available technology. This list of components should be considered as a universe of desirable program elements that must then be tailored to the needs and capacities of individual communities and service providers. Next we will describe each of these components, except for evaluation, and provide examples from the programs we studied. We will discuss evaluation issues in the concluding section.

Community and industry outreach. The ability to move quickly in cases of foreclosure prevention is essential; otherwise getting families back on track financially becomes very difficult. Two major areas of activity contribute to the ability of counseling programs to intervene early in the delinquency management process: undertaking community outreach and undertaking industry outreach by building relationships with lenders and servicers.

The community outreach undertaken by foreclosure prevention programs varies depending on whether the program provides services to its own loan portfolio clients only or to the general public. Agencies providing foreclosure prevention to their own clients try to maintain ties with homeowners through newsletters, neighborhood clubs, and homeownership classes. Agencies offering services to the general public try to advertise their services through the local media and by establishing a presence in their communities.

Programs promote outreach in a variety of ways. For instance, Neighborhood Housing Services of Chicago uses a decentralized organizational structure that combines a central office with neighborhood satellites. Each neighborhood office has a unique constellation of community partners such as churches, schools, and other neighborhood groups that it works with. These groups become a source of referrals when someone runs into a problem. Being visible in the neighborhood is believed to build a sense of trust, advocacy, and familiarity with residents, which makes it more likely that they will approach the agency when problems arise. In addition, this organization takes advantage of a subscription service that provides a list of people who have received legal foreclosure notices. The time for early intervention has passed if a legal notice of foreclosure has been issued, but it is sometimes possible to intervene successfully at this point, especially if illegal predatory lending is involved. Along the same lines, the Long Island Housing Partnership advertises its foreclosure prevention services in the newspaper that lists all of the legal notices of foreclosure so that homeowners will know about its services.

Early intervention as a result of timely notification of delinquency and default is arguably the most important factor in the ability of counseling programs to help homeowners avoid foreclosure. The earlier in the delinquency the intervention happens, the greater the options for both the borrower and the lender. For example, once the loan is past 90 days' delinquent, the addition of lender fees to the outstanding loan amount makes it considerably more difficult for borrowers to become current with their loan.

Key informants provided several examples of early intervention partnerships with lenders or loan servicers. For instance, the Indianapolis Neighborhood Housing Partnership was able to establish a relationship with loan servicers as part of the sale of a block of its loan portfolio on the secondary market. Among other provisions, the agreement requires loan servicers to notify the counseling agency when a homeowner is 30 days' delinquent. The arrangement has worked well, and the partnership hopes to negotiate similar arrangements in the future. Similarly, the Consumer Credit Counseling Service of Greater Atlanta negotiated a contract with First Union, now merged into Wachovia, so that the agency is promptly notified of delinquent borrowers and reimbursed for counseling services on a fee-for-service basis.

Thus, to improve the efficiency and effectiveness of postpurchase counseling, community outreach efforts and early delinquency notification agreements between loan servicers and counseling agencies are needed. As suggested by a key informant, this may be easier where effective local prepurchase programs are in place:

> A good local prepurchase program should make postpurchase counseling less necessary. Only programs that have a presence in the neighborhood can nurture and maintain an ongoing relationship with clients who received prepurchase counseling. The important thing is to remain in contact with clients to resolve delinquencies earlier.

In addition, counseling agencies need to be able to access loan account information from servicers quickly and consistently so they can put a loss prevention plan in place as soon as possible.

Client intake and problem assessment. Clients faced with the possibility of foreclosure are often reluctant to contact a service provider because they are embarrassed. They may also fear that identifying themselves to a counselor will cause action to be taken against them because they do not understand the role of counseling agencies. Therefore, the ability of service providers to make services easily available and to reassure clients that they are there to help is crucial.

In each of the programs we studied, staff try to ensure that the first person clients talk with either in person or on the phone is friendly and supportive and can route them quickly to the right person to help with their concerns. For instance, Consumer Credit Counseling Service of Greater Atlanta tracks how long it takes for a phone call to receive a personal response and has a monitoring system that allows the performance of all counselors to be reviewed regularly.

Clients also vary widely in the complexity of the problems they face. An initial problem assessment to identify what type of assistance each client needs ensures that services are delivered effectively. This is a critical step. As one key informant noted, the counselor must get a comprehensive understanding of the borrower's situation, including budget and spending patterns. On the basis of the information collected during the initial assessment, several of the programs we studied have instituted a triage system where a case is referred to a general housing counselor, a specialized housing counselor, an in-house or an external source of legal expertise, or another source of outside assistance.

Financial counseling. We distinguish budget management counseling from debt management counseling. Budget management includes a holistic view of household finances of which debt is simply one piece. Debt management counseling typically includes a formal debt management plan that is negotiated with debt holders.[17]

High-quality budget counseling is essential to giving families long-term, sustainable solutions to their problems. Delinquent borrowers need to be able to identify potential sources of funds that they can use to become current on their mortgage. A good budget counselor can help clients prioritize expenses and be realistic about budget options. Counselors also inform clients that mortgage payments must take priority over unsecured debt if they wish to keep their homes. In many cases, good budget counseling can get borrowers back on track so that they can then work with loan servicers on their own.

All clients with significant unsecured debt such as large unpaid credit card balances should receive debt management counseling that includes the option of a formal debt management plan. Such a plan involves having the counseling agency or a partner organization negotiate terms with the holders of unsecured debt. Often this involves eliminating fees and negotiating a lower interest rate

[17] See Staten, Elliehausen, and Lundquist (2002) for an examination of the impact of credit counseling on subsequent borrower behavior.

that frees up money to address the client's mortgage delinquency. This service can be provided by a credit counseling agency, but it can also be provided by housing counseling agencies.

Key informants identified several examples of best practices in these areas. For instance, Neighborhood Housing Services of New York City has developed an arrangement with a credit agency that allows it to negotiate a debt management plan by fax while the client is in the housing office. The organization prefers this arrangement to a referral system because it remains the primary source of services for the client. As part of its debt management services, Consumer Credit Counseling Service of Greater Atlanta collects and transfers debt payments electronically. The fairly sophisticated technology and staffing that are required constitute a major financial commitment. While the agency does not currently collect and transfer mortgage payments, this option is being actively considered.

Additional assistance. Next, we discuss three forms of additional assistance to which homeowners in danger of foreclosure often need access: legal assistance, financial assistance in the form of grants or loans, and referral to other forms of assistance such as employment and job training.

Homeowners faced with foreclosure may need advice on bankruptcy options and other legal issues. With the growth of predatory lending, staff as well as clients need access to a source of legal counsel that can identify illegal predatory lending and advise them on their options for negotiation or litigation. Particularly in areas where such lending is a major issue, a solid collaboration with Legal Services or another source of legal counsel is essential. One element that facilitates this collaboration is having a staff person with the expertise to identify illegal predatory loans and prepare the paperwork necessary for a reliable referral.

Counseling agencies that do loan origination, such as Neighborhood Housing Services of Chicago, report that loan experience is a major advantage in spotting illegal fees tacked onto closing costs and other predatory practices. This expertise can also be developed through training such as that provided by the National Consumer Law Center. During the period when an illegal predatory loan is being litigated, Neighborhood Housing Services of Chicago advises delinquent borrowers to set up an escrow account into which they deposit funds that would normally be going toward the mortgage. These escrowed funds can then be used as part of whatever settlement is reached. Counseling agencies that can bring political pressure to bear on predatory lenders can enhance an attorney's ability to reach a settlement in favor of the borrower without litigation. According to the Legal Assistance Foundation of Metropolitan Chicago, this settlement approach has made it possible for Neighborhood Housing Services of Chicago to avoid using scarce emergency assistance funds to litigate with predatory lenders.[18]

Homeowners may face foreclosure because of a temporary financial setback such as a short-term job loss or unexpected medical bill. Even when the family's income is restored, however, it can be difficult to find the funds to become current with a mortgage and pay back any additional penalties and fees. In such cases, bridge loans and other emergency assistance to get families through the immediate crisis can be crucial to saving homes from foreclosure. Grants are typically in the neighborhood of $500 to $2,000, while no-interest or low-interest loans can be up to $10,000.

Sources of emergency financial assistance for delinquent borrowers, especially outright grants, are critical but extremely limited.[19] As one key informant stated, "The biggest difference between organizations is in the resources available. The most effective organizations have resources to give funds to clients to catch up with payments." Service providers have developed disbursement criteria that include using funds only in cases where the delinquency occurred through no fault of the borrower and where the assistance will provide more than a temporary solution. Even though counseling agencies are very selective in offering these funds, they fall far short of the need.

The Long Island Housing Partnership operates a Homeowners' Emergency Mortgage Assistance Program that provides a loan of up to $10,000 for three years at 6 percent interest. Since low mortgage interest rates make the possibility of restructuring loans more difficult, the organization describes the emergency loan program as the most effective way to assist homeowners who qualify. In its partnership with the Home Ownership Center in Minneapolis/St. Paul, Twin Cities Habitat for Humanity reports that its success rate in avoiding foreclosure is much greater if it can give the client financial assistance. Often as part of that assistance, clients are asked to contribute funds toward their delinquency, even if it is a limited amount. Twin Cities Habitat for Humanity also tries to make it clear to other community organizations referring clients that it does not give financial assistance except in limited cases. More broadly, this program reports that working with community partners provides an additional source of information about a borrower's situation that can be important in resolving mortgage problems. Often each agency gets

[18] A key informant identified the collaboration between South Brooklyn Legal Services and the Neighborhood Economic Development Advocacy Project as another example of an effective partnership to fight predatory lending practices.

[19] Quercia, Cowan, and Moreno (2005) identified the receipt of an emergency loan as the most significant factor in a borrower's ability to successfully resolve a serious delinquency.

incomplete information and only by comparing notes can a more complete plan to assist the client be developed. The Home Ownership Center also finds that by contracting for specific services with partner organizations, it can ensure that clients receive high-quality adjunct services such as credit counseling.

Families faced with mortgage foreclosure often confront other challenges such as replacing a lost job or coping with health issues. Developing a long-term solution for homeowners with multiple challenges must frequently involve bringing a network of community resources to bear. Such a referral network is also a means of marketing foreclosure prevention services to the broader community.

Negotiation with loan servicers. While negotiating with loan servicers consumes a great deal of staff time, it almost always brings quicker results for the borrower. According to a key informant, "The counselor must be an active advocate for the borrower, being a liaison between the lender and borrower if necessary."

First, the fact that someone is working with a counseling agency sends a signal to the servicer that he or she is making a serious effort to resolve the delinquency. Second, the servicer knows that the counselor has examined the borrower's financial situation and developed a plan that has a reasonable chance of success. Third, receiving a written plan from the counseling agency often prompts action on the part of the loan servicer to negotiate a solution, especially if it can be assured that the borrower is willing and able to follow the plan.

Well-trained staff members who have expertise in both lending practices related to loss mitigation and effective personal counseling skills are essential. Often staff members who provide prepurchase counseling also provide postpurchase counseling. But the two skill sets are very different. Unlike their prepurchase counterparts, postpurchase counselors need to be simultaneously tough with and supportive of clients. They also need to be able to negotiate with lending institutions on behalf of clients and, when necessary, bring pressure to bear on these institutions to respond. Multilingual counselors are increasingly important in many communities.

Examples of best practices were identified in several sites. The Community Development Corporation of Utah reports that the banks it works with are developing a system to deliver timely information to the organization together with a bank contact person. In a similar vein, Neighborhood Housing Services of Chicago has spearheaded a new initiative to get local banks to designate a consistent contact person to avoid wasting staff time. Newly emerging loss mitigation programs being established by some lenders such as Chase Manhattan may help in this regard. On the flip side, bank consolidation and concentration of mortgage servicing has made establishing these personal relationships more challenging for counseling agencies because loan servicers are larger and less likely to be local.

Loan refinancing education and assistance. It is not unusual for homeowners to wish to refinance their mortgage for a variety of reasons such as lower interest rates or better loan terms, the need to access money for unexpected costs such as health care emergencies, or the need to cover unexpected home repair costs. In addition, new homeowners are commonly bombarded with offers for refinancing and home equity loans from a variety of sources, including mortgage companies offering predatory loans. Refinancing is a time when consumers can fall prey to bad financing options even when their initial loan may have had favorable terms. For this reason, many postpurchase service organizations have provided their clients with loan refinancing services so that they can maintain a long-term equity investment in their homes.

With the growth of predatory lending, counseling agencies may also need a way to refinance clients out of predatory loans as part of the litigation or negotiation process. When legal action taken against a predatory lender results in a settlement, the borrower needs to be able to refinance the mortgage quickly to avoid mounting payments and late fees. When a counseling agency has a loan pool for this purpose, it allows for faster refinancing because it avoids having homeowners approach banks individually in search of a loan.

A good example of best practices in this area is Neighborhood Housing Services of Chicago, which has established a loan pool that was capitalized by the city of Chicago and a consortium of 18 local banks for this purpose. The loan pool is easy and quick to access when needed. Along with a consortium of community groups, the organization has also helped create a political climate that is intolerant of predatory lending. This climate has convinced traditional lending institutions that it is in their best interest to take action against predatory practices, including contributing to a loan pool for refinancing predatory loans.

To sum up, in this section we identified essential program components in an ideal foreclosure prevention program. We also described selected best practices for each of these components. We now turn to examining essential components and best practices for postpurchase counseling intended to sustain homeownership.

Sustainable homeownership services model

Sustainable homeownership training can provide the skills necessary for low- and moderate-income homeowners to realize the value of their investment over the long term through home maintenance and protective measures such as insurance and home safety. As expressed by one key informant, "The goal of training should be to teach the skills to manage and build the asset value of the home….Other goals should be to teach households income/budgeting skills so that clients can increase wealth in general." For sustainable homeownership programs, experts and program staff articulated the following goals:

1. To give homeowners the skills they need to maintain and repair their homes in order to realize the full value of their financial investment as well as reduce the ongoing expense of homeownership
2. To give homeowners the information they need to protect their homes with adequate insurance and home safety measures
3. To train homeowners in budget and debt management so they can continue to meet their mortgage payment
4. To give homeowners and other consumers the information they need on loan refinancing, home equity loans, and reverse equity mortgages, including how to avoid predatory lenders and other purveyors of questionable financial services
5. To educate homeowners on the options available when they encounter problems with meeting their mortgage payment
6. To build stable neighborhoods so that homeowners can realize the maximum value of their investment

While housing organizations often recognize the value of such training, many have faced a lack of response from clients. Some organizations, however, have been successful in attracting participants. Staff members identified five key components that contribute to the success of those programs: outreach and marketing, group training, individual counseling and referral, neighborhood stabilization, and evaluation. We will describe each of these key components.

Outreach and marketing. As discussed earlier in the context of foreclosure prevention training, increased attention to marketing and outreach is often required to attract participants to training sessions. Homeowners frequently feel less urgency to attend postpurchase training than prepurchase training, where their clear goal was to qualify for a home loan. Homeowners must be convinced that the time invested in postpurchase training or counseling will be worthwhile. Effective marketing and outreach can accomplish that goal.

Training programs that achieve good participation use every opportunity to market through other organizations in the community such as lenders, churches, and public agencies. Neighborhood Housing Services of New York City has a large number of homeowners living in housing developed by the agency. Groups such as this have a ready market for their services and typically market their training programs internally through the other programs they operate.

In addition, several programs offered monetary incentives. For example, Neighborhood Housing Services of New York City has negotiated with two homeowner's insurance providers to give participants who take home maintenance classes a discount on their premiums. They also review policies for their clients. The Community Development Corporation of Long Island has received funding from homeowner's insurance companies for its insurance training, and each participant is given a free fire extinguisher. The Long Island Housing Partnership provides home safety training participants with a grant of up to $500 that they must match with their own funds and then use for home safety improvements such as an alarm system. Funding for the program comes from the Allstate Foundation.

Group training. Homeowners can benefit from training in a broad range of areas. Postpurchase counselors have also found that how they package information can be important. For example, working together, Neighborhood Housing Services of Chicago and a local chapter of AARP found that offering a class on predatory lending alone attracted few participants. Presenting the material as part of a workshop on refinancing and home equity loans brought in more clients and was a more effective way to get the information across.

The key informants we interviewed believe effective group training requires (1) locally relevant topics, (2) effective trainers, (3) clearly written materials, and (4) a hands-on training facility.

Overall, we found that the most effective way to deliver home repair and maintenance training is through hands-on workshops. In this way, participants learn to use tools and can actually practice the skills they are being taught. Such workshops are offered by the Community Development Corporation of Long Island and Neighborhood Housing Services of New York City. A facility with plumbing to fix or mock-up walls on which to install drywall is ideal. This kind of practice provides tremendous reinforcement to participants, especially nontraditional homeowners such as single mothers.

Individual counseling and referrals. The purpose of sustainable homeownership counseling is to provide ongoing support to homeowners once they are actually in their homes and are faced with new expenses and responsibilities. In contrast to homeownership training, counseling is delivered in a one-on-one format. Postpurchase programs that have instituted this service have generally started by working with their existing clients who either have a loan through the organization or live in a neighborhood that the organization has targeted for services. Outreach is often a matter of timing so that clients who have just moved into homes or are at the point of considering refinancing are made aware of the service and its value to them.

One effective means of bringing homeowners in for sustainable homeownership counseling is for an organization to have them sign a contract that requires continued counseling services as a condition of receiving a loan or purchasing a unit built by the organization. For example, the contract can require the homeowner to come in quarterly for budget counseling. As was the case in the earlier program areas discussed, having effective budget counseling services is essential to helping homeowners be successful.

Another option is for the housing organization to stipulate that homeowners must come in for counseling before a loan can be refinanced and/or to require that they maintain a home repair escrow account monitored by the organization. Homeowners often need assistance when they are at the point of considering new loan options such as refinancing. This is frequently when homeowners become the target of predatory lenders.

Key informants identified several best practices in this area. The Charlotte Mecklenburg Housing Partnership is now offering intensive budget counseling services to its new homeowners. The program is structured so that they return to the agency for a budget review once they have accumulated two or three months' worth of bills that reflect their new postpurchase household expenses. With this information, the agency works with them to design an updated budget plan that can ensure long-term success. The counseling session also covers scams to be aware of and repeated solicitations for home equity loans. The Long Island Housing Partnership counsels mortgage clients that if they later desire to refinance, its services will be available. It would also like to institute a requirement for follow-up training and counseling six months or so after purchase.

To sum up, sustainable homeownership programs provide an important means for low- and moderate-income homeowners to maintain and build on their housing investments. While some programs have had difficulty in attracting a steady clientele, successful programs provide important examples of how they can work. With the growth in mortgage delinquency and foreclosure rates, sustainable homeownership programs are gaining increased recognition for their role in helping homeowners avoid problems and for their potential to reduce the need for foreclosure prevention services on a crisis intervention basis.

Neighborhood stabilization. A mention should be made about neighborhood stabilization efforts as part of a broader sustainable homeownership strategy. Neighborhood stabilization represents a new program area for some housing services providers, while others such as the Neighborhood Reinvestment Corporation and its NeighborWorks affiliated agencies have been undertaking these activities for many years. If new and existing residents are encouraged to get involved in their neighborhoods, the sense of community that develops can improve the quality of life and head off the crime and property abandonment that can contribute to neighborhood decline and increased foreclosures. Since word of mouth is usually the most important way that people learn about foreclosure prevention services and homeownership training opportunities, establishing a strong presence in target neighborhoods is also a way to connect residents to an organization's postpurchase services. A description of this type of effort was not included in the present study because it was not clear whether organizations engage in these activities in pursuing sustainable homeownership objectives or merely as a different neighborhood stabilization effort. In any case, their nature and effectiveness need to be examined critically.

Conclusion

Over the past decade, public policy initiatives aimed at increasing homeownership rates among low- to moderate-income families have been successful in widening access to homeownership among traditionally underserved groups. Recent increases in the rates of mortgage default and foreclosure, however, highlight the need to focus more attention on services to these families after they become homeowners. In response, housing and credit counseling organizations are working to increase their capacity to provide two types of postpurchase services: foreclosure prevention services that help families retain their homes when they encounter financial difficulties and sustainable homeownership services that give people the skills they need to avoid problems and maximize the value of their housing investment. However, a lack of funding has been a major constraint on the ability of service providers to upgrade their capacity to respond to both the growing numbers of homeowners requesting services and the increasingly complex issues they confront, such as predatory lending.

In our investigation, we found a variety of organizations that provide postpurchase services. They ranged from large, full-service organizations to smaller, more narrowly focused organizations that rely on a network of community partners to provide a breadth of services. Across these organizational models, we identified key prototypical components of effective foreclosure prevention and sustainable homeownership services. Taken together, these components comprise a best practice model that can be used to assess strengths and weaknesses in local services provision and then to undertake strategic planning and investment to build local capacity.

More broadly, the two models can be used to guide future research by providing a framework for the full range of programs and identifying ways to evaluate them. A comprehensive evaluative research study would require a substantial data collection effort. To assess the efficacy of postpurchase services, client and other information would need to be collected in the short term (six months after intervention) as well as in the medium to longer term (one to three years later). Unfortunately, few programs have the resources to conduct this kind of follow-up since it comes at the expense of existing program demand. Moreover, a comprehensive evaluation also requires data to capture measures of successful postpurchase intervention from the perspective of all stakeholders: service providers, financial players, clients, and communities.

Looking beyond the current provision of postpurchase services, we see a number of issues that we feel deserve further investigation. The first is that there is still much to learn about the effectiveness of postpurchase programs in reducing foreclosure and helping low- to moderate-income families realize the financial and other benefits of homeownership. There is a need for a comprehensive examination of organizational capacity and cost issues, such as the cost per person counseled in foreclosure prevention. We also need to understand more about the efficacy and cost-effectiveness of different models of services provision.

A second issue is the need to better understand the total costs, including loss of capital, disposition, and staff time, associated with foreclosure and who bears those costs. Such an understanding would provide a better sense of who should be paying for default prevention counseling. Many actors are involved in mortgage lending, including originators, mortgage insurers, mortgage servicers, and secondary market actors. Each of them stands to lose something, depending on whether a loan is sold to a secondary market actor, whether the servicing is sold, whether the loan has mortgage insurance, and other factors. We do not know enough about who bears the costs of mortgage default under alternative loan scenarios. Thus, a careful analysis of this issue is warranted.

A third issue concerns the ways and the extent to which the industry is being shaped by the increased use of technology. One dimension of this issue is the impact of the growing use of automated servicing technology on the mortgage lending and servicing industry and on community-based providers of postpurchase services. Foremost among these is scripting technology that allows even an inexperienced loan servicer to identify an appropriate option to keep a delinquent borrower in his or her home. This servicing technology has allowed institutions such as Fannie Mae and Freddie Mac to increase the share of delinquent loans that can be successfully resolved without foreclosure.

One expert we interviewed suggested that automated servicing technology should be made available to community-based foreclosure prevention programs so that they can take advantage of the efficiencies it could offer. Another cautioned that automated programs that fail to factor in individual circumstances in the same way that personal counseling does may be disadvantageous for nontraditional borrowers. The staff of several service providers expressed skepticism about the value to their own programs of adopting automated servicing technology for loss mitigation. Instead, they felt that the value of their services lay in being able to investigate specific circumstances and develop a solution to fit clients' unique situations. Service providers felt that their greatest needs involved obtaining mortgage account information from loan servicers quickly and reliably. They also expressed a desire to have software that would allow them to track clients over time from prepurchase counseling and training all the way through postpurchase.

A second dimension of the effect of technology on the industry concerns the impact of the increasing use of electronic technology to deliver postpurchase services via telephone and the Internet and its implications for the geographic and institutional organization of services delivery. For example, since all postpurchase services do not need to be delivered locally, this opens up the possibility of regional or national centers for both direct services to clients and technical assistance to organizations in areas where sophisticated expertise is required, such as the legal complexities involved in predatory lending.

How the two issues of program cost-effectiveness and the increased use of technology evolve will have a large impact on the future of the homeownership counseling and training industry. As one example, loan industry stakeholders who become convinced of the cost-effectiveness of foreclosure prevention counseling programs must make decisions about whether and how to invest in them. One option is to invest in more in-house loss mitigation capacity. A second is to subcontract with outside providers of foreclosure prevention counseling.

Last, with mortgage loans typically being unbundled into myriad financial derivative products that are sold to a wide array of servicers and investors, loan industry stakeholders increasingly serve a very geographically dispersed clientele. To provide uniform services to their mortgage clients, these stakeholders may feel that it is increasingly advantageous to either locate these services in-house or to contract them out to an organization that can provide telephone or Internet counseling regionally or even nationally. One implication of this is that smaller, locally based providers of foreclosure prevention services may find it increasingly difficult to secure funding from financial institutions unless they can show that their more personal, face-to-face services are cost-effective. A second implication is that loan industry stakeholders may increasingly be able to settle the easiest cases of delinquency in-house, leaving community-based foreclosure prevention programs with the most difficult and time-consuming cases.

Taken together, the study findings underscore the potential role that providing postpurchase services can play in enhancing the long-term viability of recent homeownership gains. Attention needs to be paid to what happens to home buyers after purchase, especially from a preventive rather than a remedial perspective. It is clear that a great deal of variability exists in postpurchase services. The disadvantage of this high degree of variability is that there is little standardization across the industry. This variability does, however, provide fertile ground for innovation. Ways need to be found to support the nonprofits that are increasingly left to serve the most difficult cases, such as homeowners targeted by predatory lenders. Unlike loan servicers acting as counselors, these organizations squarely represent the best interests of home buyers. Moreover, ways need to be found to encourage those who benefit from these services—lenders, secondary market institutions, insurers, and the borrowers themselves—to bear the costs. Ultimately, at a time of rapid technological and financial innovations, a lack of attention to the experiences of homeowners after home purchase can have negative effects on individuals, families, and communities.

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