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DOES FORECLOSURE COUNSELING HELP TROUBLED HOMEOWNERS?

Part I: Early results from the evaluation of the National Foreclosure Mitigation Counseling Program

By Peter A. Tatian, Neil S. Mayer, Kenneth Temkin, and Charles Calhoun

The authors are all members of the Urban Institute research team evaluating the National Foreclosure Mitigation Counseling program.

The national foreclosure crisis continues to be a drag on the U.S. economy. According to LPS Applied Analytics, Inc., a company that tracks data from loan servicers, an estimated 4.1 million mortgages were in serious delinquency (with three or more missed monthly payments) or in the foreclosure process as of June 2011. The total percentage of loans in foreclosure has remained stubbornly high at about four percent. And, about 40 percent of seriously delinquent loans have not made a payment in over a year.¹

Adding to the pessimism is the feeling that many of the responses to the crisis have had limited effectiveness. One of the key federal government interventions, the Home Affordable Modification Program (HAMP), has been disappointing to some, with relatively small numbers of loan modifications compared to initial projections.

But not all of the news is bad. One intervention, housing counseling, is making a difference in helping many homeowners avoid foreclosure and stay in their homes. A large share of this counseling is being funded through the National Foreclosure Mitigation Counseling (NFMC) program, which is a special federal appropriation, administered by NeighborWorks® (NW) America, designed to support a rapid expansion of foreclosure intervention counseling in response to the nationwide foreclosure crisis. NW America distributes funds to competitively selected organizations across the country, which in turn provide much needed foreclosure prevention and loss mitigation counseling services at no cost to homeowners. Over 1.2 million struggling homeowners have received counseling through the NFMC program.

The counseling itself can consist of several types of assistance. At an initial level, the counselor will discuss the homeowner's situation, either in person or over the phone, and come up with an action plan. This action plan might include working out a detailed "crisis budget" to prioritize expenses and calling the mortgage servicer to ask about a loan modification. At higher levels of counseling, the counselor might assist homeowners further by helping to negotiate the modification with the servicer, collecting and transmitting necessary documents, and guiding homeowners through the difficult process of reaching a resolution to their problem.

As this is a federal appropriation, NW America must inform Congress and other entities of the NFMC program's progress. The Urban Institute was selected by NW America to undertake an evaluation of the first two rounds of the NFMC program, which included persons counseled in 2008 and 2009. Our research answered the following questions about a number of possible positive outcomes for homeowners who received counseling.

- Did the NFMC program help homeowners stop an existing foreclosure?
- Did the NFMC program help homeowners receive loan modifications that resulted in lower monthly payments than they would have otherwise received without counseling?
- For homeowners who cured a serious delinquency or foreclosure through a loan modification or some other means, did NFMC counseling help them to remain current on their loans longer and more frequently than they would have without counseling?



1. LPS Mortgage Monitor, July 2011 Mortgage Performance Observations.

NEIGHBORWORKS AMERICA RAISES AWARENESS ABOUT LOAN MODIFICATION SCAMS

By Eileen Fitzgerald, Chief Executive Officer, NeighborWorks America

NeighborWorks America, one of the nation's largest non-profit community development organizations, is urging all homeowners facing financial difficulty and their communities to learn the warning signs of a loan modification scam. Through a national public awareness campaign, NeighborWorks America informs families where they can turn for free, legitimate help, and where to report scams.

NeighborWorks America, established by Congress in 1978, is the nation's original community/public/private partnership model. Over the past 30 years, NeighborWorks America and the 235 chartered local non-profit affiliates in the NeighborWorks network have created opportunities for over a million people to live in quality, affordable homes, improve their lives through financial and homebuyer education, and strengthen their communities through foreclosure intervention counseling, community revitalization, and housing and economic development.

Congress asked NeighborWorks America in 2009 to launch a public education campaign to empower homeowners to protect themselves against loan modification scams, find trusted help from Housing and Urban Development (HUD)-approved non-profit housing counseling agencies, and report illegal activity to authorities.

NeighborWorks America, along with its non-profit, state, and local government partners continue to alert thousands of homeowners of the dangers of loan modification scams in

hundreds of at-risk communities using the power of real-life scam stories, fliers, postcards, e-cards, posters, print advertising, local PSAs, events, and social media.

More than 30,000 callers to the HOPE Hotline have complained about loan modification scam activity; more than 16,000 formal scam reports have been submitted in the Loan Modification Scam Prevention Network Database. Through August, these homeowners have reported losing more than \$45 million from fee payments to scammers.

Signs of a loan modification scam include: A company/person asks for a fee in advance to work with a lender to modify, refinance, or reinstate a mortgage; a company/person guarantees they can stop a foreclosure or get a loan modified; and a company/person advises a homeowner to stop paying their mortgage company and pay them instead.

Visit www.LoanScamAlert.org for more warning signs, to find out how your community can get involved, and to report loan modification scams.

NeighborWorks America is also one of the nation's leading trainers on community development. It offers non-profits and municipalities a range of training opportunities including four national Training Institutes, 15 online classes, and many local events on foreclosure mitigation, housing, and community development. For more information about NeighborWorks' training opportunities, visit www.nw.org/training. ■



2011 KIDS COUNT DATA BOOK

By Laura Beavers Speer, Associate Director, Policy Reform and Data, The Annie E. Casey Foundation

The Annie E. Casey Foundation released its annual 2011 *KIDS COUNT Data Book* on August 17th, 2011. This is the 22nd consecutive year that Casey has produced the *Data Book*, a resource that provides information and data trends on the conditions of children and families in the United States. This year the *Data Book* examines how children and families are faring in the wake of the recession.

According to this year's *Data Book*, the official child poverty rate increased by 18 percent between 2000 and 2009, essentially returning to the same level as the early 1990s. This increase means that 2.4 million more children are living below the federal poverty line. Data also reveals that the impact of the job and foreclosure crisis on children has been grave. In 2010, 11 percent of children had at least one unemployed parent, and four percent were

affected by foreclosure between 2007 and 2009. These economic challenges hinder the well-being of families and the nation.

The essay introducing the *Data Book* this year is "America's Children, America's Challenge: Promoting Opportunity for the Next Generation." In this message, the Casey Foundation takes a hard look at challenges federal and state legislators will face as they work to ensure the continued well-being and future of the nation's children at a time of economic uncertainty. The public policy recommendations offered are practical, maximizing the use of public funds, and represent the best thinking of leading progressive and conservative experts. They are grounded on public policies that have been shown to work and provide a blueprint for helping all children reach their potential and set the nation on a path to renewed economic prosperity.



The 2011 *KIDS COUNT Data Book* is complemented by the KIDS COUNT Data Center and accompanying mobile-friendly site which contains hundreds of measures of child well-being covering national, state, county, congressional district, and city information. Please visit the website to access customizable maps, graphs, and geographic profiles that include information on education,

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economic well-being, health, the number of children in immigrant families and many more topics. The 2011 *KIDS COUNT Data Book* is a key source of data that can inform your work, practices, and decisions that impact the lives of vulnerable children and families.

KIDS COUNT, a project of the Annie E. Casey Foundation, is a national and state-by-state effort to track the

status of children in the United States. It is composed of a national project whose principal activity is the publication of the annual *KIDS COUNT Data Book* and oversight of the online Data Center and a nationwide network of state-level KIDS COUNT projects that provided a more detailed, community-by-community picture of the condition of children. The KIDS COUNT model has also been

adopted in Latin America, and is currently being replicated by child advocates in Brazil, Mexico, and Paraguay.

Women In Government's Family Economic Success Policy Resource Center features KIDS COUNT data and maps, which may be accessed at <http://www.womeningovernment.org/familysuccess/KIDSCOUNTDataCenter>. ■

SERVICE POLITICS: GOING BEYOND LEGISLATION

By Rashida Tlaib, Michigan State Representative, 12th District

As a State Representative, I am committed to working for positive change that will ensure my district is a strong community and a great place to live, work, do business, and raise a family.

However, the only way I have found to be effective is going beyond legislation by implementing community-focused initiatives. With the partnership of local non-profit organizations, I created a free tax preparation program and tax foreclosure outreach plan that helps teach families to save money and prevent those at risk from losing their homes to foreclosure.

Free Tax Preparation Program

My office provided free tax preparation services to over 1,000 low-income families and seniors. The Accounting Aid Society, a local non-profit, provided free training for my staff, volunteers, and me to become IRS certified and qualified to prepare tax returns. They provided us with the equipment, software, and expertise to offer exceptional tax preparation services.

Every year, we help hundreds in obtaining tax credits, including Michigan home heating credit, property tax (homestead) credit, and Earned Income Tax Credit (EITC).

Since 2009, we have helped obtain over \$1 million in tax refunds. This service places dollars back in taxpayer pockets to help families pay bills and support our local economy. Studies have shown that the majority of those who receive earned income tax refunds use the funds to pay bills and purchase durable goods such as home appliances. The majority of those dollars are spent in-state, generating additional spending within the state.

Extending a Helping Hand to Homeowners

To help protect seniors, low-income tenants, and homeowners, my office partnered with local community organizations and the County Treasurer's Office to help



Representative Rashida Tlaib

homeowners in danger of foreclosure. Home foreclosure does not just affect individual families – it affects entire communities. It hurts property values, drives away businesses, and decimates neighborhoods.

My office works directly with the County Treasurer's office to obtain the list of homes at risk. We then mail out letters with a list of options for free counseling and legal assistance, and we have worked with community organizations to coordinate a door-knocking campaign. This was a huge success, preventing hundreds of homes from going into foreclosure and keeping families in their homes.

Representative Tlaib was elected to represent Michigan's 12th District in 2008. She serves on the Appropriations Committee and the subcommittees on Human Services, Judiciary, and Community

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- For borrowers with seriously troubled loans, did NFMC counseling increase their chances of first obtaining a cure and then sustaining that cure and avoiding redefault?
- Did the NFMC program help reduce the number of overall foreclosure completions?

Although the final results of our evaluation have not yet been released, our preliminary findings have demonstrated that the answer to each of these questions is, "Yes." Counseling through the NFMC program has had a positive impact on homeowners in all of the ways listed above. For example, our preliminary research found that more than half (55 percent) of the typical counseled homeowners in foreclosure were able to stop their foreclosure successfully (without their home going to a foreclosure sale) within one year, compared to 38 percent of similar homeowners who did not receive counseling.²

We also found that homeowners who got counseling help for loan modifications ended up with bigger reductions in their monthly payments, making their loans more affordable, and homeowners who got counseling help to get a modification that brought their loans current after a serious delinquency or foreclosure were more likely to keep up with their monthly payments afterward than did homeowners who did not receive counseling help.

In part two of this article, we will present the conclusions from our final analysis of the NFMC program, which are expected to be released in the fall. This will include more details on the positive outcomes and lessons learned from the program on how to help homeowners facing foreclosure. ■

2. The full results from our preliminary analysis can be found on the Urban Institute web site at <http://www.urban.org/publications/411982.html>.

RESULTS FIRST: HELPING STATES ACHIEVE BETTER RESULTS WITH LOWER COSTS

By Gary VanLandingham, Director, Results First, Pew Center on the States

States are facing tough budget choices affecting programs that promote family economic success.

That's why Results First, a project of the Pew Center on the States, is collaborating with state leaders to adopt a cutting-edge research model that helps achieve better results with lower costs.

The model, which was developed by the Washington State Institute for Public Policy (WSIPP), has a demonstrated record in that state, where policymakers have used it for a series of data-driven decisions to invest in crime prevention and drug treatment programs that have been proven to reduce recidivism. Since the 1990s, the state has experienced:

- A greater reduction in juvenile arrests rates than the national average (arrests are 62 percent lower in Washington State compared with a 48 percent reduction in the U.S.).
- An incarceration rate substantially below the national average (the state's rate is 54 percent of the national average).
- Savings of \$1.3 billion per two-year budget cycle, eliminating the need to build new prisons and making it possible to close an adult prison and a juvenile detention facility.

The model's results have also prompted legislators to invest in evidence-based early childhood education programs to improve family economic success and save millions of dollars that otherwise would have been spent on incarceration in the long run.

Results First is helping other states implement this model in such areas as child welfare, education, healthcare, housing, and substance abuse, as well as criminal justice. The project was developed by Pew and the John D. and Catherine T. MacArthur Foundation, with additional support from the Annie E. Casey Foundation. Currently, six states are participating in Results First, and there are opportunities for additional states to join the effort.

The federal government and most states have made some use of cost-benefit analysis, but the model used in Washington State goes beyond traditional methods by:



- Analyzing all available research to document what programs work and which ones do not.
- Calculating the return on investment that taxpayers and society would achieve if the state implemented each program.
- Analyzing the combined costs and benefits of a package of policies, instead of judging each program separately.
- Identifying ineffective programs that could be cut to free up investment in programs that do work.
- Working closely with policymakers to make this analysis highly accessible.

"I came from the business sector where we relied on evidence on what was a good investment," said Skip Priest, former ranking Republican on the Washington State House Committee on Education. "In the legislature I realized we needed to do the same thing. Otherwise, you make decisions based on opinions and anecdotes or one person's favorite study that may be the exception."

The Pew Center Results First program can be accessed online at http://www.pewcenteronthestates.org/initiatives_detail.aspx?initiativeID=61282. ■



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