The Effectiveness of Foreclosure Counseling in St. Louis

A Report Prepared for the Metro St. Louis Foreclosure Intervention Task Force and Beyond Housing

Final Draft

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Executive Summary

This study examined the records of 1,460 homeowners who received foreclosure counseling between January 2008 and September 2009 from Beyond Housing, a nonprofit in St. Louis, Missouri, affiliated with NeighborWorks America. The purpose of the study was to investigate who is receiving foreclosure counseling, the sorts of outcomes that homeowners are facing at the end of the counseling process and some of the benefits of counseling compared to some of the costs associated with foreclosure.

We found that that, while those who sought foreclosure counseling tend to be lower income, more African American, and more single-parent, female-headed households than the metropolitan area as a whole, the homeowners assisted by Beyond Housing included a broad cross-section of the region's population in racial, ethnic and social terms. About half of the homeowners had the sorts of loans that research has shown put borrowers at risk for foreclosures, such as ARMs, high-interest rate loans, and "exotic" mortgage instruments like interest-only loans. By far, the most common reason for seeking counseling was a reduction in income related to either a job loss or job cutback.

Matching client files with county assessor's records, we found that fully 84 percent of those who sought foreclosure counseling were still owners of record at the end of the study period—a much higher number than expected. Given the fact that 87 percent of the homeowners were delinquent on their loans at the time they began counseling and that Missouri has one of the fastest foreclosure processes in the nation, this high proportion is encouraging. Because this study did not include a control group which did not receive foreclosure counseling, we cannot determine how many people remained in their homes *because of the foreclosure counseling*. Our findings are consistent, however, with a recent national study, which included a control group. This study concluded that those facing foreclosure who received foreclosure counseling were 60 percent more likely to avoid foreclosure than those who did not receive counseling (Mayer, et al, 2009).

The large number of homeowners who remain in their home suggests that local counseling matters. However, we also found that only 13 percent of Beyond Housing clients had received a loan modification and 13 percent brought their mortgage current on their own by either refinancing or paying the default amount. While the first amount is above the Urban Institute loan modification rate of 11%, in practical terms this means that many of the remaining homeowners are still the owners of record who have not been modified into a sustainable loan. For practical purposes, these remaining homeowners are clients of Beyond Housing and many continue to rely upon the agency for assistance in negotiating federal loan modification programs.

Thus, a second major finding of the analysis is that the current structure of federal foreclosure policy is not adequately moving homeowners through a loan modification process. National studies of foreclosure counselors support the view that current federal policy on foreclosures has exacerbated the log-jam problem and complicated their work. Counselors generally point to two causes to this situation of clients who have neither been foreclosed upon nor sustainably modified: 1) delays by loan servicers in proceeding to foreclosure; and 2) temporary modifications under the federal Making Home Affordable program. Thus, policies by national actors are putting severe strains on local foreclosure counselors.

The effect of the "logjam" of temporary loan modifications at the local level is that the client loads of foreclosure counselors are soaring. Beyond Housing's caseload soared from about 100 clients in April 2008 to 935 clients in July 2009. In truth, many of these clients are inactive and do not require frequent counseling. But the fact that they are not resolved one way or the other means they are still on the counselor's caseload and they distract from the services counselors can provide to incoming clients. The federally funded NFMC program does not allow additional fees for working with HAMP clients; there was some talk by some of the national servicers to institute an additional $150 for agencies who work with HAMP homeowners, but this has not been instituted.

In short, the inability of the federal HAMP program to generate large numbers of permanent loan modifications is burdening local foreclosure counseling agencies, such as Beyond Housing, making it difficult for them to do their job. The "log-jam" of clients could become a looming tsunami of foreclosures unless the right sorts of incentives and policies are provided for counseling agencies and homeowners to continue to seek solutions to mortgage default and for lenders and services to provide mortgage modifications in an equitable, reasonable and timely manner.

Finally, we estimated the costs of foreclosures in St. Louis City and County and compared them with the costs of foreclosure counseling. One important question about the impact of counseling is whether it represents a cost-effective strategy for taxpayers at the local, state, and federal levels. Many argue that using taxpayer funds to help homeowners avoid foreclosure creates a moral hazard by rewarding people to take on risky loans. Setting aside the fact that predatory lenders deceived many borrowers, this moral hazard argument ignores the question of the spillover costs imposed on those who are not involved in a foreclosure. If these spillover costs are substantial, this justifies taxpayer expenditure to prevent foreclosures through counseling and other programs. Costs of foreclosures include effects on local homeowners and tax-payer; on the other side, the cost of foreclosure counseling includes modest public sector investments in counseling and rescue funds, including a local rescue funded by the City of St. Louis' Affordable Housing Trust Fund.

Based on these estimates, we conclude that the cost of foreclosure—over $88,000 for each foreclosure in St. Louis County and over $167,000 in the City of St. Louis—far outweighs the investments that local governments have made in foreclosure prevention. Most of the investment in foreclosure counseling and prevention comes from the federal government under the NFMC NeighborWorks program and the HAMP program, as well as some funding by local governments. Local support includes funding provided by the City of St. Louis Affordable Housing Trust Fund, under the championship of Mayor Francis Slay, used for both counseling and a rescue fund, and $150,000 in funds from St. Louis County Supervisor Charles Dooley for mortgage assistance for homeowners in unincorporated parts of the county. Given the large spillover costs of foreclosures, the relatively modest costs of counseling, and the evidence from our study (and from a recent national study) that "counseling matters," further public and philanthropic investments in foreclosure prevention at the local level are justified.

I. Introduction

In August of 2009, the Metro St. Louis Foreclosure Intervention Task Force, a coalition of nonprofit, public, and private organizations, approached the Public Policy Research Center (PPRC) to document the impacts of local foreclosure counseling. Since 2008, five agencies have been providing foreclosure counseling in the St. Louis area under the federally funded NeighborWorks America (NWA) National Foreclosure Mitigation Counseling (NFMC) program: Better Family Life, Inc., Catholic Charities/Housing Resource Center, ACORN, the Urban League of Metropolitan St. Louis and Beyond Housing, Inc. The agencies are each HUD-certified. They provide free counseling to homeowners who are delinquent or are facing foreclosure, helping them with financial planning and to obtain a variety of loss mitigation options, including loan modifications, assistance in selling their property, a repayment plan, and others. They also refer homeowners to other agencies as a part of this counseling.

Much of the funding for foreclosure counseling comes through the NFMC, administered by NWA. This money is then allocated to individual agencies for each client they counsel – with payments ranging from $150 to $350 depending on the extent of the counseling. A small part of the funding is local. The City of St. Louis has allocated $1,000,000 to the agencies operating within the city limits, with the money going to both fund a rescue fund and pay for counseling and administrative costs. More recently, the County allocated $150,000 to a rescue fund for the unincorporated parts of the County. Additionally, Beyond Housing received a grant from Genworth Financial to provide grants to homeowners for similar uses. Part of the motivation for the study was to determine if "counseling matters," and specifically if local investments in foreclosure counseling are cost effective.

Key Questions

PPRC entered into the analysis with three main sets of questions:

1. Client Characteristics:

PPRC used the client data to identify the social, demographic and economic characteristics of homeowners seeking counseling and the general types of customers the housing counseling agencies were seeing. This analysis of types of local residents seeking foreclosure counseling was made possible by an intake process that gathered basic information on each client. Along with demographic data, PPRC was interested in information on the homeowners' original loan, particularly the extent to which the loan was high-cost or subprime—and why homeowners were experiencing default. Finally, to the extent possible from the data, PPRC investigated the type of counseling homeowners received, including the length of the counseling, the level of counseling services and other services, including funds from a special local fund designated to help homeowners bring their mortgage current.

2. Client Outcomes:

The counseling data included a general sense of the outcome of the counseling at the time of the agency's last contact; however, PPRC was interested in more directly identifying whether clients had sustained homeownership. To do this, PPRC utilized the name and address of the homeowner to search through current local assessor records and identify those homeowners who had lost their home through foreclosure, those who sold their homes, and those who remained owners of the property. Given the accessibility of assessor records, this matching process was only conducted for homeowners located in the City of St. Louis and St. Louis County, approximately 87 percent of the counseling records. On the basis of this outcome, PPRC compared those who had sustained homeownership to those who lost their homes to foreclosure in order to identify any client characteristics that were meaningful predictors of sustainability.

3. Costs and Benefits of Counseling:

Finally, PPRC used the available information on the costs of counseling and the potential negative spillovers of foreclosures to conduct a rough cost/benefit analysis for foreclosure counseling. To accomplish this, PPRC relied upon standard estimates of the spillover effects of foreclosures from the literature as applied to St. Louis and then compared these costs to the public investments in local foreclosure counseling.

Methodology

PPRC utilized a quasi-experimental, mixed-method, case study approach to examine the implementation and impact of local foreclosure counseling. The main data for the project was individual-level case management data from agencies involved in foreclosure counseling. While the initial study design called for the participation of four local agencies that provide foreclosure counseling, only one agency agreed to participate (Beyond Housing). An examination of the case data suggests that it is representative of the various socio-economic groups in the region facing foreclosure. One caveat is that most of the clients investigated are Missouri residents and relatively few are from the Illinois side of the region. This is significant because state policy can significantly impact the process under which mortgage default occurs and, through this, directly impact the ability of homeowners to get loan modifications or alternative solutions to default. Specifically, the foreclosure process is much longer in Illinois than in Missouri, thus offering homeowners more time to cure a foreclosure (Cutts & Merrill, 2008).

Limitations of the Analysis

If the primary goal of the study was to uncover the extent to which "counseling matters," the scope of the study limits the authors' ability to authoritatively answer this question. To do so would require following a rigorously experimental method and contrasting randomly assigned treatment and control groups. If the treatment group was those who received foreclosure counseling, the best control group would be comparable individuals who did not seek counseling. Early on in the development of the evaluation plan, PPRC determined that there was no inexpensive, post-hoc manner to identify this group and gather the sort of equivalent data that the agency data file contained. However, compared to expectation, Beyond Housing had a very high success rate as measured by the number of homeowners who sustained homeownership and this high rate strongly suggests, but does not prove, that "counseling matters."

Additionally, the research team early recognized that a "true" cost/benefit analysis was beyond the scope of the study, requiring detailed information, for example, on how much local government spends on each foreclosure. Consequently, as a preliminary assessment, the report compares the public investments in foreclosure counseling—either the payments made to counseling agencies as homeowners meet certain benchmarks in the counseling process as well as the local rescue funds that homeowners use to bring their mortgages current—to the "typical" spillover costs in local communities like St. Louis. These include declining property values and tax collections, increased costs to local governments, and effects on children.

II. Findings

The first component of the evaluation used local counseling records to identify the characteristics of homeowners who sought foreclosure counseling. These characteristics include socio-demographic characteristics, financial characteristics of homeowners and their mortgage loans and characteristics of their counseling experiences. Additionally, PPRC looked at the home locations of homeowners and compared them to the locations of local foreclosures to determine whether counseling activities were meeting those in greatest need of assistance in geographic terms.

Socio-Demographic Characteristics of Homeowners

The agency data file included demographic data gathered on homeowners during their first counseling session. It included:

- the race/ethnicity of the homeowner;
- the family structure of the homeowner; and
- their income level.

The organizational data also included the age and gender of the homeowner, but there was little variation on these dimensions because most of the homeowners were between 40 and 50 years old and majorities were two-person households.

Table 1 shows the basic characteristics of the homeowners; as a comparison, the table includes summary information for the St. Louis Metropolitan Statistical Area, a 16-county area on both the Missouri and Illinois side of the Mississippi River.

In racial terms, 65 percent of the homeowners served by the local counseling agency were African American, with the majority of the remainder white/Caucasian. African Americans are about three times as likely to receive foreclosure counseling as their distribution within the population would suggest. This probably reflects that fact that African American homeowners were more likely than white homeowners to receive subprime and high-cost loans.

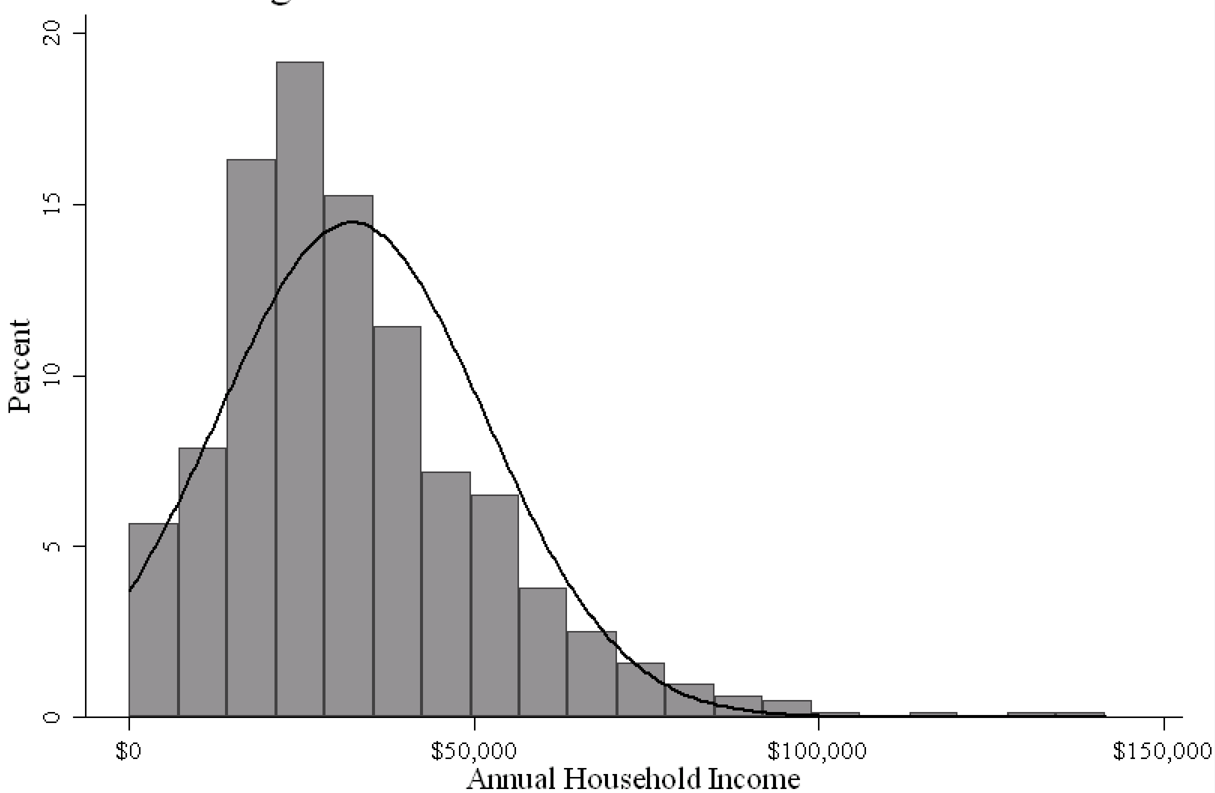
Table 1: Characteristics of Homeowners

	Homeowners	St. Louis MSA
Race		
Black African American	65%	18%
White	31%	78%
Other	4%	4%
Household Type		
Female Single Parent	26%	8%
Single Adult	25%	29%
Married with children	24%	20%
Married without children	9%	28%
Male Single Parent	3%	2%
Unrelated adults	1%	5%
Other	12%	8%

Homeowners seeking foreclosure counseling represented a number of different family types and, by implication, a number of different socio-economic groups. Single adults comprised 25 percent of our sample of clients, 24 percent married couples with children, 26 percent female single parents, and 9 percent married couples without children. In total, 54 percent of the clients were from families with children, meaning that children would be substantially disadvantaged if the household lost its home to foreclosure. In comparison to the MSA data, women heading female-headed families are three times more likely to seeking foreclosure services as their numbers in the MSA would suggest and married couples much less likely in comparison to the numbers in the region. This again reflects the fact that many of the borrowers who had sub-prime, high cost loans were more likely to be lower income.

The agency also tracked the homeowner's annual household income at the time of the intake. Given the timing of when the data was collected, this number might reflect a drop in income since the homeowner's mortgage was originated, including a drop that might have caused default. The median income for the counseling group was $28,671, compared to the region's median household income of $53,400. The fact that, on average, the homeowners seeking counseling had lower incomes than the regional average is also symptomatic of the predominance of sub-prime and high-cost loans among lower-income borrowers. Figure 1 shows the distribution of the homeowners' income. 25 percent of the homeowners had household incomes above the MSA's median and 44 percent had incomes below 60 percent of the area median and thus would be considered low income.

Figure 1: Distribution of Homeowners' Income



PPRC utilized the demographic characteristics of homeowners to cluster them into groups that shared key characteristics. The clustering method that was used (Principle Components Method) segmented the group of homeowners into distinct subgroups based upon sharing of characteristics. In total, five groups were identified, primarily defined by the family type, race and income. The largest group identified (N=426) were low-income, African American, single parents, primarily women. The second largest group (N=358) were low-income single persons, both African American and white/Caucasian. In comparison to the first group, this second group had a slightly lower household income.

The next two groups comprised moderate-income married couples, both those with children and without; the first of these groups was white/Caucasian (N=248) and the second African American (N=240). The white/Caucasian group had a slightly higher household income than the African-American group. The last group (N=183) comprised those homeowners with "other" family structures. This last group varied greatly in their household income and included both African-American and white/Caucasian homeowners.

Financial Characteristics of Homeowners and Their Loans

The counseling agency also gathered data on the homeowner's financial situation, aspects of their original loan, and what sorts of issues precipitated their need for foreclosure counseling. As shown above, a significant number of the homeowners were low or moderate income and the median income of the group is about one-third below the median for the St. Louis MSA. Clients were paying an average of about $1000 in principal, interest, taxes and insurance (PITI) at the intake to counseling; this amount would reflect any increases in loan costs or interest rate that might have occurred since loan origination and could be a cause of mortgage default.

Table 2: Characteristics of Homeowners' Mortgages

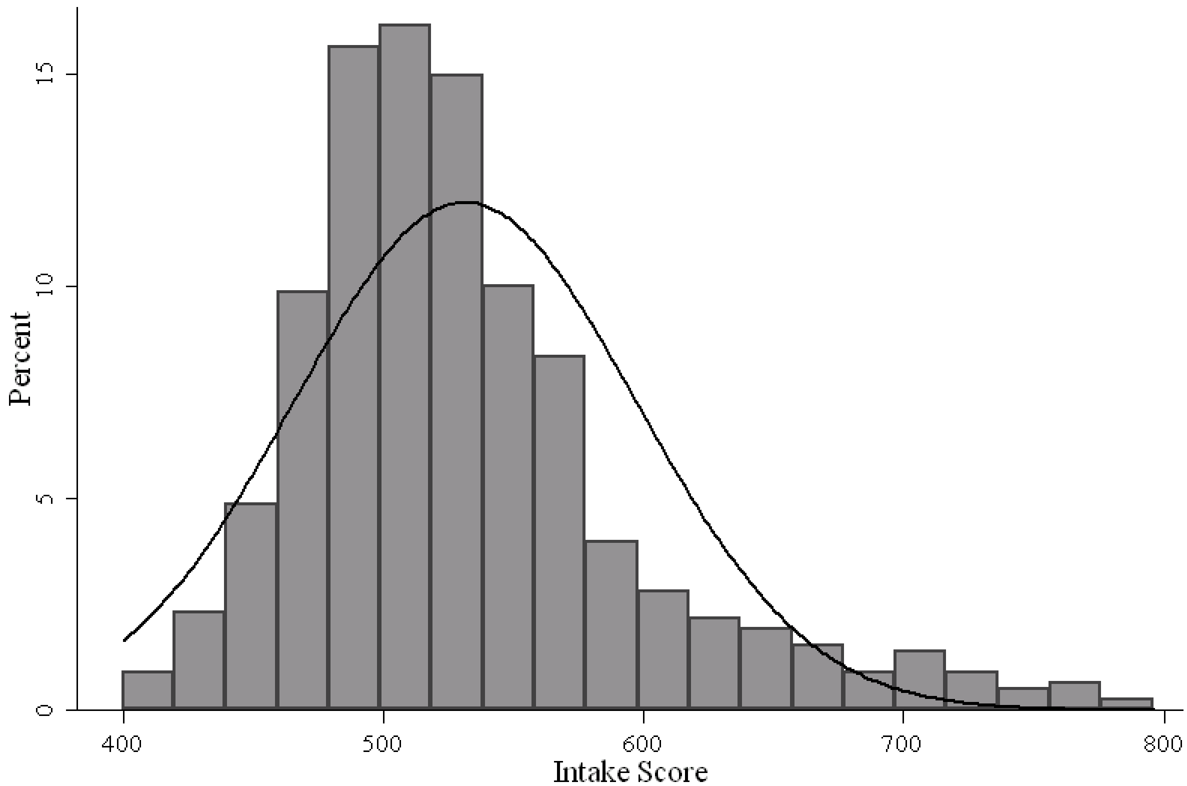
Loan Type		
ARM currently at 8% or greater	352	24%
ARM currently under 8%	77	5%
Fixed rate 8% or greater	313	21%
Fixed rate under 8%	585	40%
Other	133	9%
Interest Rate Reset, ARMs Only		
No	202	47%
Yes	227	53%
Option ARMs	11	1%
Interest only loans	29	2%
FHA/VA Insurance	199	12%
Privately insured loans	18	1%

Source: Agency Counseling Files

Table 2 lists some of the relevant features of the homeowner's mortgage. Surprisingly, given the importance of adjustable rate mortgages (ARMs) in precipitating the foreclosure crisis, ARMs comprised a minority of the loans, just below 30 percent. Of the ARMs, 53 percent had experienced some form of interest rate reset. About 46 percent of the homeowners had loans with interests at or above 8 percent at the time their counseling began. Few homeowners had other so-called "exotic" loans—option ARMS and interest-only loans. 12 percent of the clients were insured by FHA/VA. 1 percent of the loans were privately held. There was wide variability in both the originating lender and the current servicer.

About half of the homeowners had the sorts of loans that research has shown put borrowers at risk for foreclosures, such as ARMs, high-interest rate loans, and "exotic" mortgage instruments like interest-only loans. Figure 2 shows the distribution of the homeowners' credit scores at the intake counseling session. Again, the credit score might reflect changes since the loan origination. An overwhelming majority of the homeowners had credit scores that would be considered "subprime"—a score of 600 or below.

Figure 2: Distribution of Homeowners' Credit Score at Intake



Very few homeowners had “prime” credits scores—above 700.

Table 3 summarizes the reasons homeowners came to foreclosure counseling. The most common reason for counseling (66 percent) related to a reduction in income, either a job loss or a job cut-back. Other reasons, which may have prompted a loss in income, account for individually less than 8 percent of the total. Only 2 percent of the homeowners indicated that an increase in the loan payment was the reason that they sought counseling.

Finally, there was a great deal of variation among homeowners in their loan status at intake:

- 13 percent of the homeowners were current
- 31 percent 30 to 60 days late,
- 22 percent 60 to 90 days late,
- 11 percent 90 to 120 days late, and
- 23 percent more than 120 days late.

Table 3: Reason for Default

	Count	Percent
Reduction in income	936	64.11
Medical issues	109	7.47
Increase in Expense	48	3.29
Death of Family member	37	2.53
Poor budget management skills	37	2.53
Increase in loan payment	33	2.26
Loss of income	29	1.99
Divorce/Separation	28	1.92
Business Venture Failed	6	0.41
Other	197	13.49
Total	1664	100

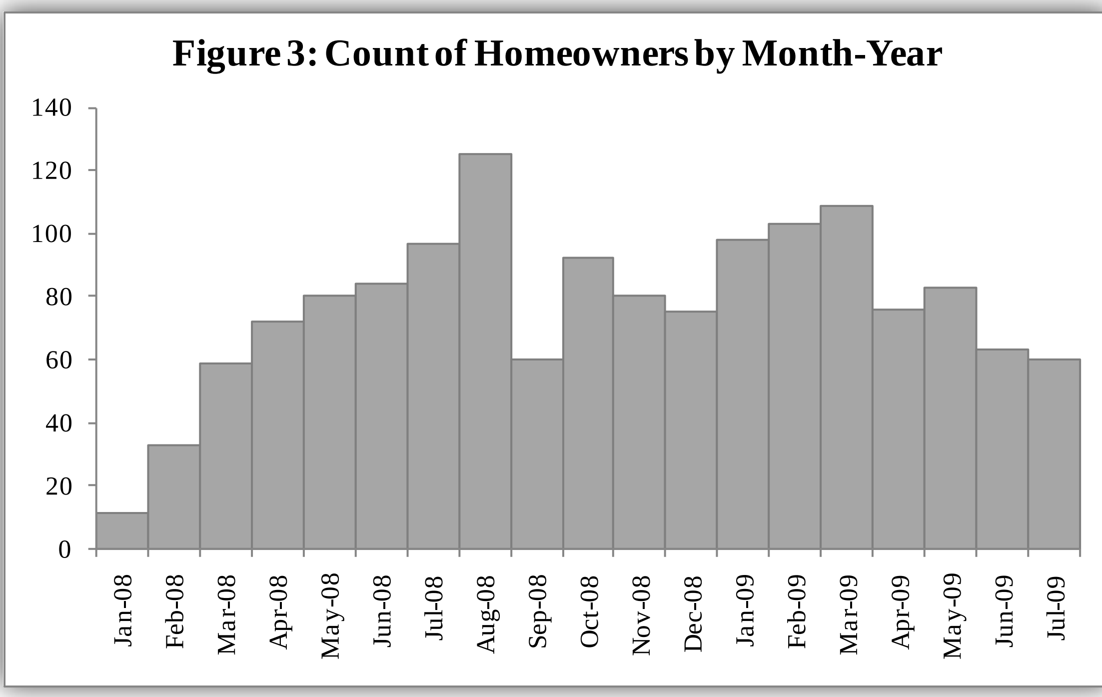
Source: Agency Counseling Files

Characteristics of Counseling

The final portion of the data provided by the counseling agency related to the counseling homeowners received. It should be noted that subsequent conversations with staff at the agency indicated the problems that may exist with this data, as well as the fact that other aspects of the counseling services might not be captured in the data file. For example, according to counselors, the data file frequently under-estimates the number of hours counselors spent on particular cases. Additionally, the homeowner's individual file might indicate other aspects of counseling that might be of interest to the analysis, such as whether and how often counselors contacted servicers and lenders, but this information was not available to us.

One of the most basic data points around counseling is when the homeowner approached the agency for counseling. Figure 3 shows the count of homeowners entering counseling by month and year since the beginning of 2008. The data shows a large bump up in homeowners in the fall of 2008—a period generally when the foreclosure crisis deepened and federal policy first emerged to try to deal with mortgage default. Another important aspect of counseling was provision of local rescue funds provided by the City of St. Louis and Genworth Financial to help St. Louis homeowners bring their mortgage current. In total, 41 homeowners received this assistance, with an average grant of $1,789.

Finally, the agency data file tracked counseling outcomes. Like other aspects of the counseling data, there were complications around this data that requires additional discussion. First, the agency did not have the resources to adequately track homeowners; generally, counselors relied upon homeowners to stay in contact—something that varied from homeowner to homeowner. Secondly, the agency tracked outcomes in two phases. The original data file provided to PPRC reflected a process of periodic and episodic contact with clients. More recently—i.e., after PPRC completed with its initial analysis—the agency undertook a larger assessment of outcomes, utilizing an intern to contact as many homeowners as possible to ascertain their status. Two things resulted from this. First, PPRC updated some of its analysis in order to review updated outcome data. Second, because this second round of analysis worked off of a client file that was



larger than the original universe of clients, data on this aspect of the counseling experience is slightly different from other data presented in this analysis.

Table 4 shows the frequency of counseling outcomes using the second counseling data file.

Table 4: Homeowner Outcomes

	Count	Percent
Currently Receiving Foreclosure Prevention Counseling	791	43%
Mortgage Modification/Refinancing/Brought Current	235	13%
Refinance or "Self Cure"	239	13%
Withdrew/Referred Elsewhere	305	17%
Foreclosure/Bankruptcy/Deed in Lieu	100	5%
Sale	12	1%
Unknown	141	8%
Total	1823	100%

Source: Agency Counseling Files

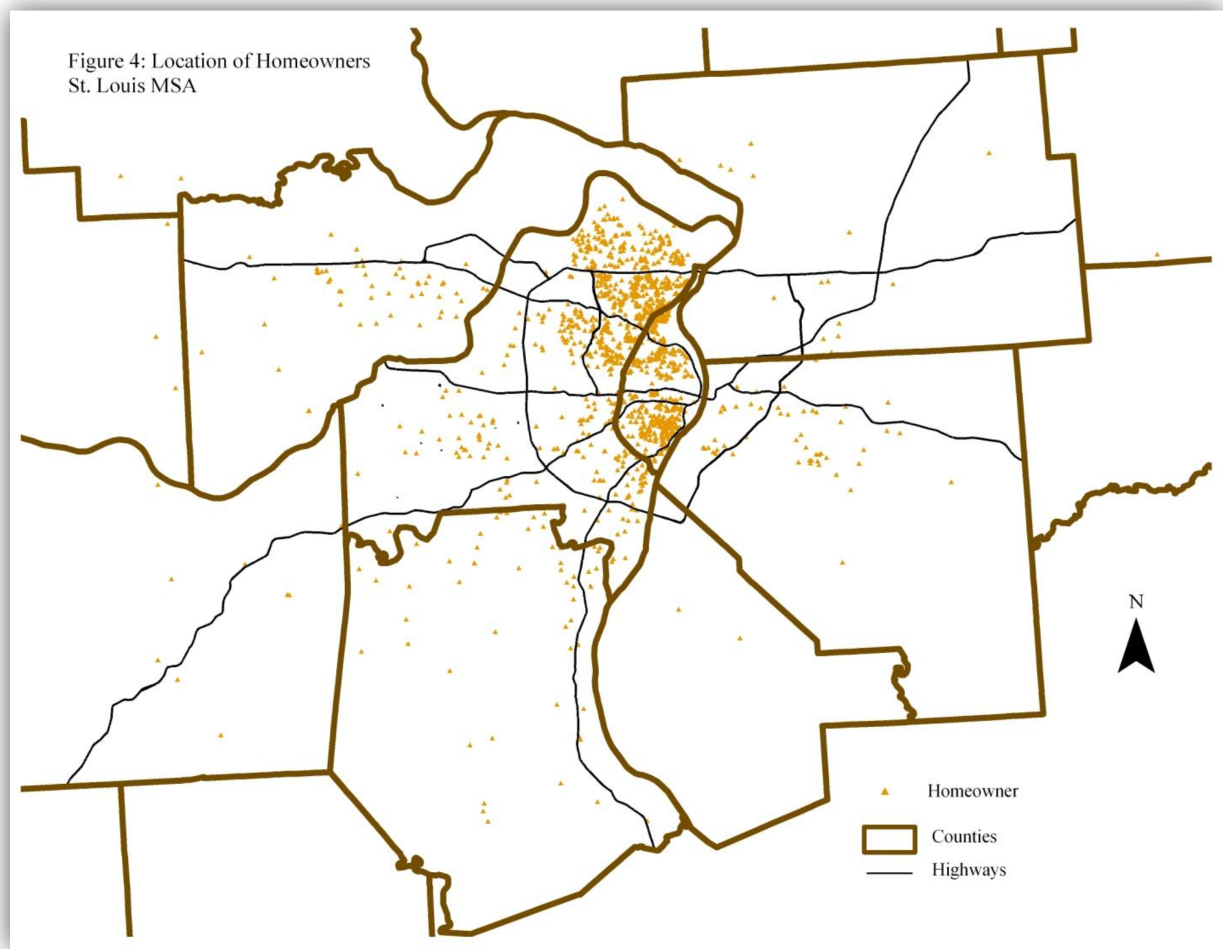
44 percent of the homeowners remain in the counseling system; this includes some homeowners with whom the agency is working as a part of the federal Home Affordable Modification Program (HAMP). 13 percent received some sort of loan modification and 13 percent "self-cured" either through refinancing or otherwise.

Only 5 percent of the homeowners lost their home in some way—through foreclosure or deed in lieu of foreclosure — and a small number sold their home.

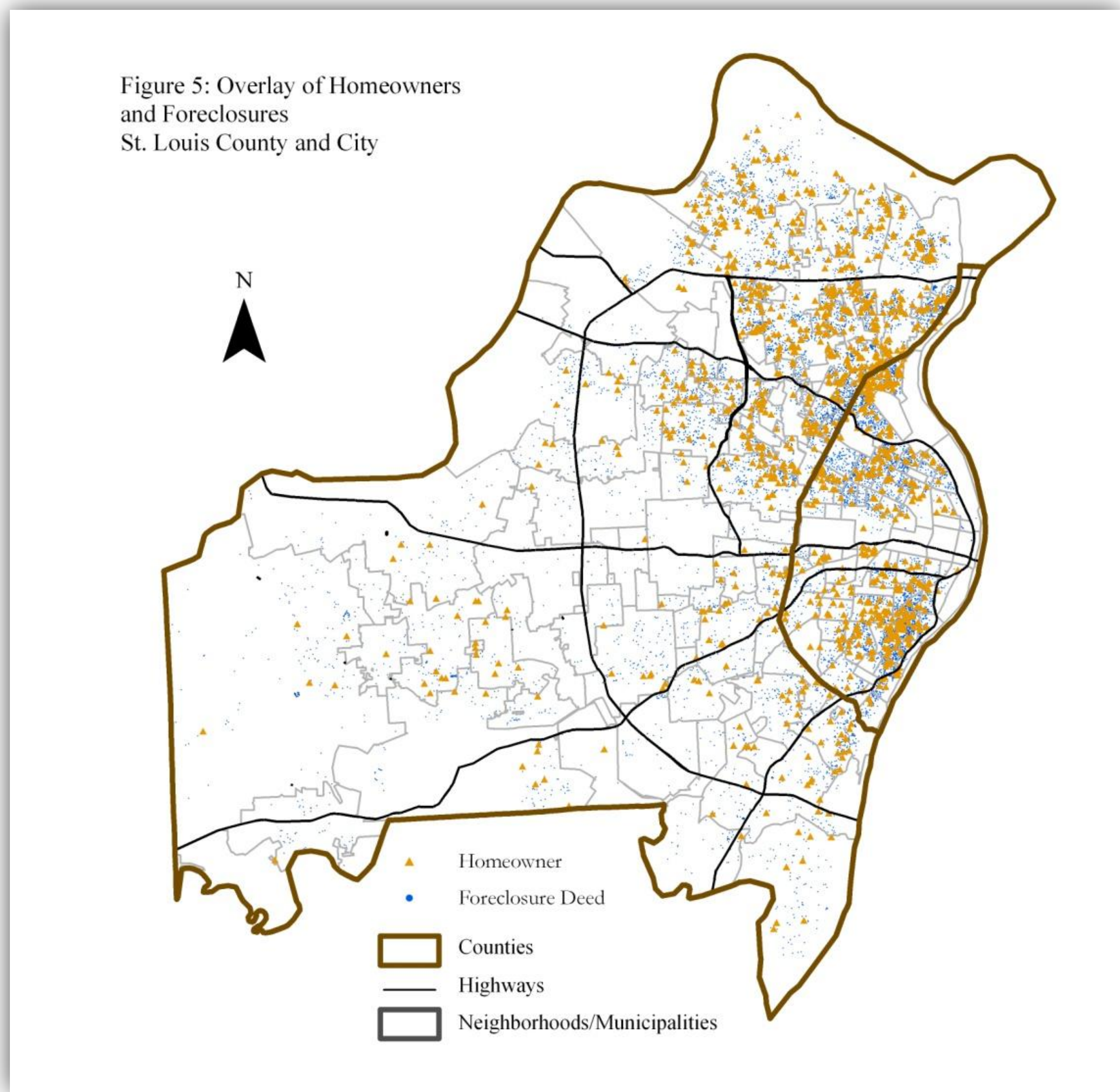
Geographic Distribution

The counseling files also included the name and address of the homeowner, two pieces of data that PPRC used to determine homeownership sustainability. However, the authors also mapped the home locations of the homeowners in order to assess their geographic distribution and the relationships between the homeowners and the communities that have seen a large number of foreclosures over the last couple years.

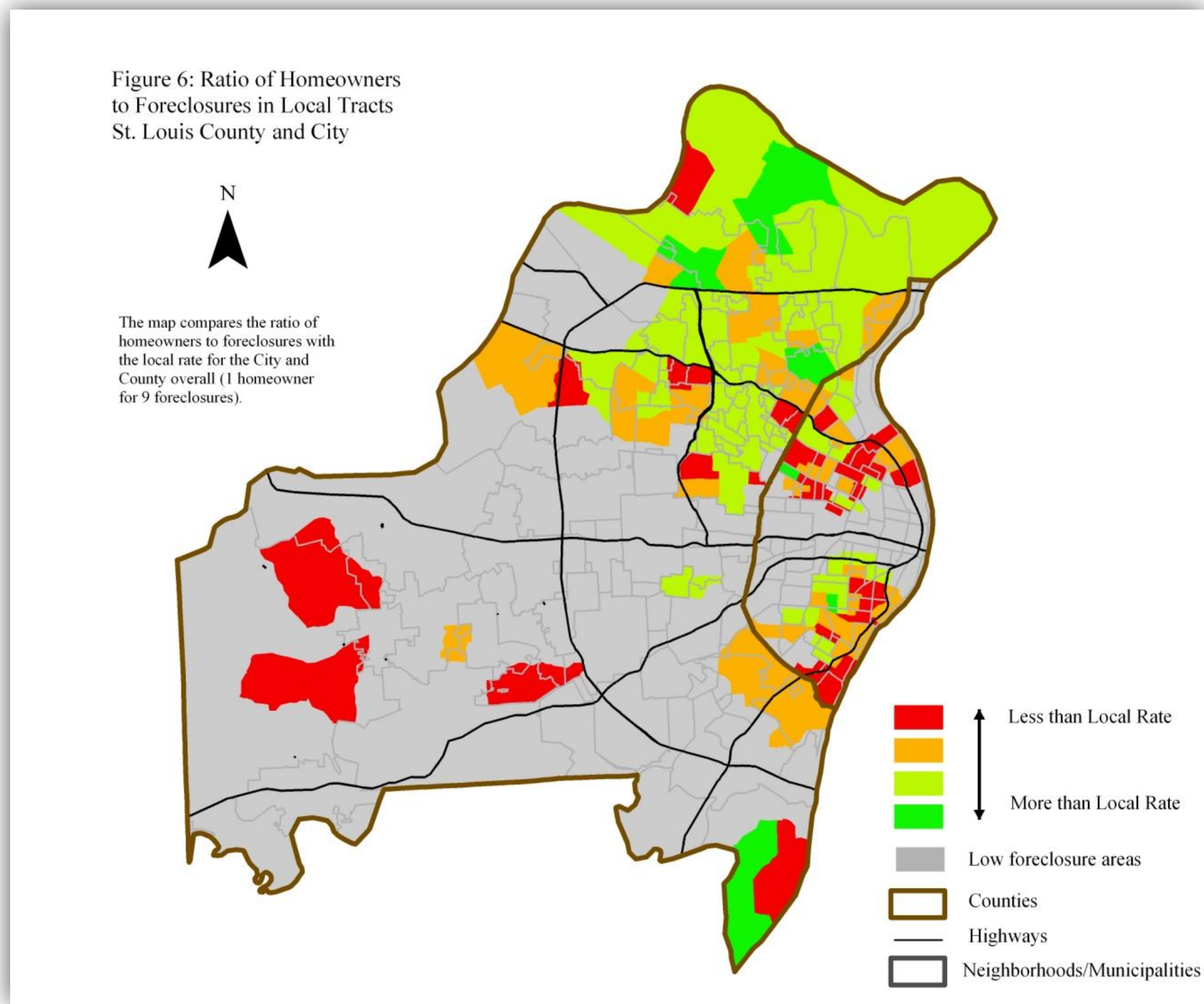
Figure 4 shows a map of the homeowners who received foreclosure counseling.



While the homeowners are from a broad portion of the metropolitan region, they are clustered in the City of St. Louis and St. Louis County and, within St. Louis County, the North County area. As shown in Figure 5, these areas are also ones that have seen a high number of recent foreclosures. The map shows the point location of all foreclosures in St. Louis City and St. Louis County from January, 2007, through May of 2009. The foreclosures are clustered in the south-east portion of the city, the northern portion of the city, and the northern area of the county, with smaller clusters elsewhere.



While the distribution of homeowners who receive foreclosure counseling appears to overlap with the distribution of foreclosures, a more formal assessment can be made to determine if there are high foreclosure areas from which the agency is not drawing clients. Overall, agency clients represent 9 percent of the total number of foreclosures in St. Louis City and St. Louis County in 2007 and 2008. A relatively simple method of looking at the overlap between homeowners and foreclosures is to examine for areas where the ratio between homeowners and foreclosures is less than 9 percent and areas where the ratio is more than 9 percent. Figure 6 shows this pattern for census tracts in the city and county. Tracts are neighborhood-sized areas created by the U.S. Census Bureau for estimating local populations and their characteristics. Areas in orange and red on the map show tracts that have lower clients to foreclosure ratios than average and areas in green show tracts that have higher than average ratios. (Tracts with less than 30 foreclosures in 2007 and 2008 are not shown.) In other words, green areas are parts of the city and county where the agency is drawing at an above average rate relative to foreclosures and the red areas are where the agency is drawing at a below average rate. Most of the high foreclosure areas in North County are light or dark green, meaning



that Beyond Housing is drawing clients from these areas at a rate higher than the overall rate for the city and the county. The red areas where Beyond Housing is drawing clients at a lower rate include most of the south-east and northern parts of the city and some scattered areas in St. Louis County. Because Beyond Housing is only one of five counseling agencies, these areas could well be covered by another agency.

Figure 7 shows more detail on these patterns for St. Louis City. The map includes the dot locations of foreclosures (January, 2007, through May, 2009). The areas with below average rates of clients are city neighborhoods to the east of Gravois in South St. Louis and North St. Louis west of Grand and north of Delmar. Figure 8 zooms in on the pattern of service in the North County area. The overlay of foreclosures is useful, because it shows that some of the areas where Beyond Housing draws clients at a below average rate are geographically large tracts where the density of foreclosures is much lower. However, some areas where the rate is lower than the city-county rate are also high foreclosure areas, including parts of the North County area and parts of University City.

The rate used to evaluate local tracts is a relatively simple one, and because of that, several factors may produce a "false positive"—a rate that appears to be lower than the city/county rate. The most important may be foreclosures in rental housing or housing owned by speculators. Because these types of

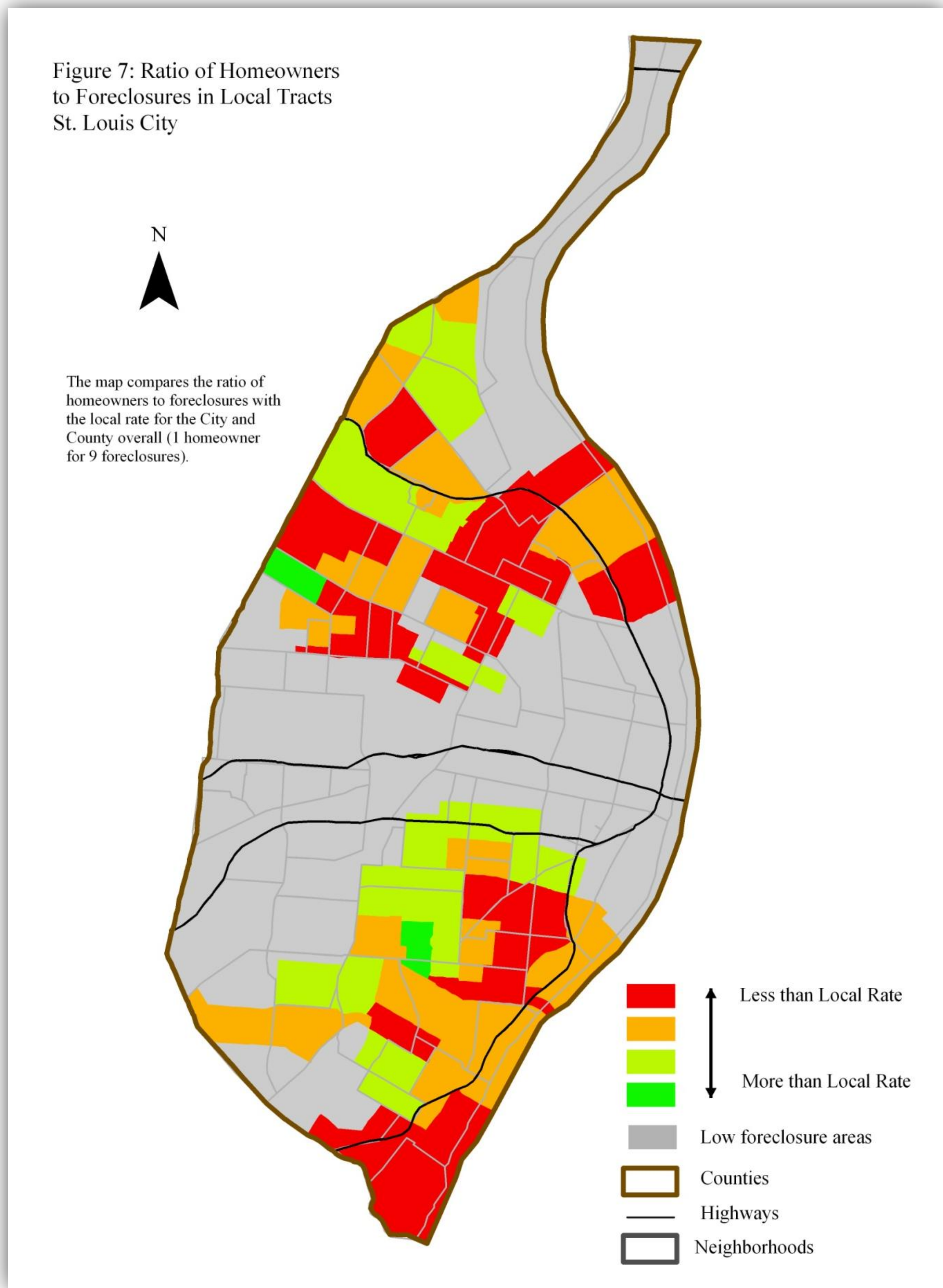


Figure 7: Ratio of Homeowners to Foreclosures in Local Tracts St. Louis City
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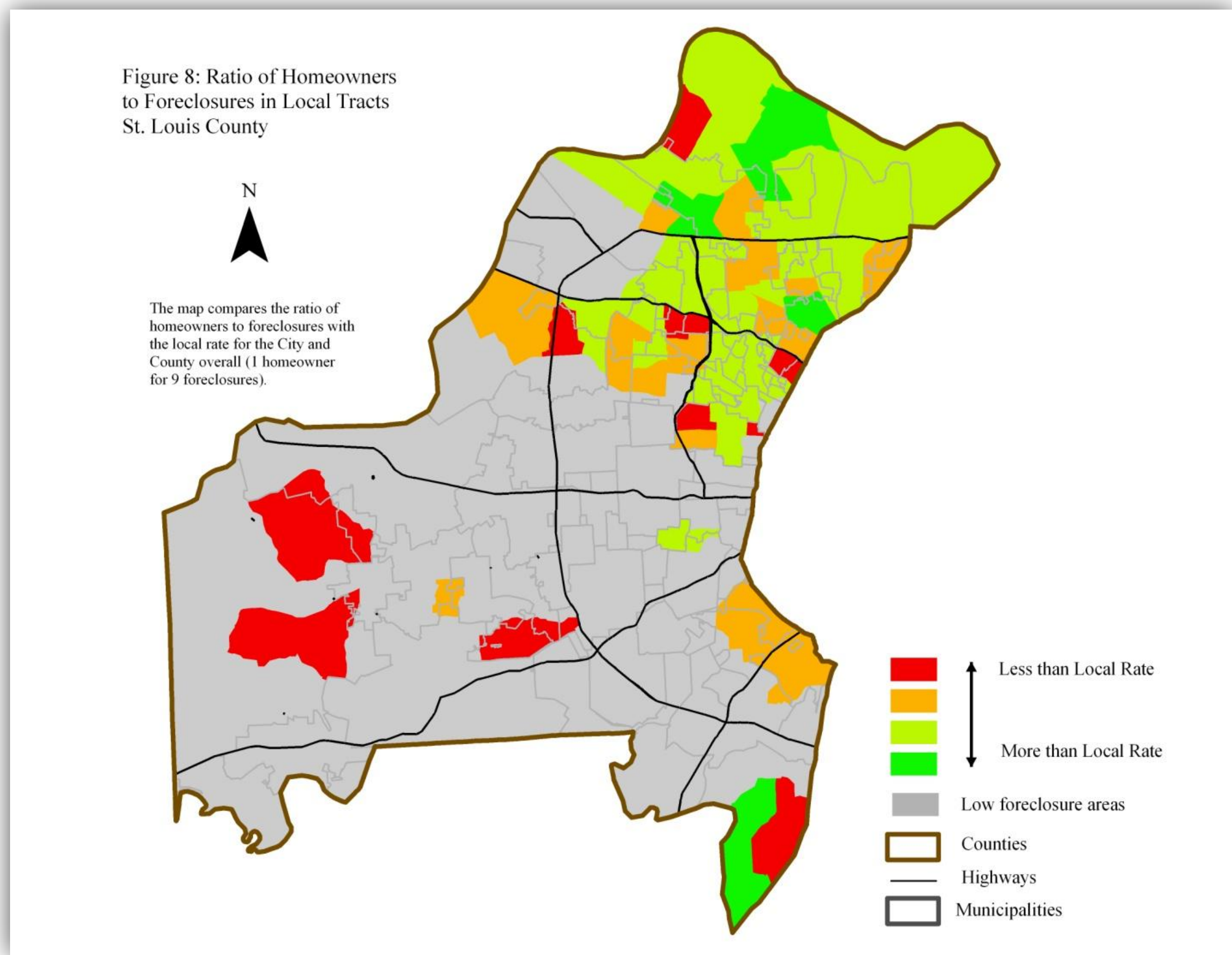
The map compares the ratio of homeowners to foreclosures with the local rate for the City and County overall (1 homeowner for 9 foreclosures).
Less than Local Rate
More than Local Rate
Low foreclosure areas
Counties
Highways
Neighborhoods



owners would not be eligible for Beyond Housing's services, they properly should not be included as a potential client in the construction of the rate. However, identifying whether a foreclosure is in an owner-occupied house or a rental house is difficult to do and would require matching each foreclosure record with the assessor ownership record at the time of the foreclosure. One quick estimate utilized foreclosures in 2008 in the Normandy School District—an area of the North County of St. Louis County—and in a south St. Louis City cluster of Benton Park West, Gravois Park and Dutchtown and compared the foreclosure property address with the owner billing address in January of 2008. This found that 18% of the foreclosures in the Normandy School District were owned with a different mailing address than the property address as compared to 25% in the south St. Louis City cluster. This result suggests that some of the areas with low rates of foreclosures to clients may be attributable to high rates of rental properties.

III. Analysis of Client Outcomes

The second aspect of PPRC's analysis used the agency's data to identify the extent to which homeowners remained in their homes. The intent of the analysis was to identify a local "sustainability rate"—the percent of the homeowners that had sustained homeownership—and to complete further analysis of homeowners to see what sorts of characteristics were related to sustaining homeownership or losing the home through foreclosure. PPRC undertook this analysis because, as discussed above, the original outcome data provided reflected a sporadic and episodic contact with homeowners; thus, the authors suspected the foreclosure outcome listed as a part of that original data file undercounted the true numbers of homeowners who lost their homes to foreclosure.

To document client outcomes PPRC matched the homeowner's name and address with current county-level assessor's data; this matching took place in September and October of 2009. To the data file, PPRC added a "1" if the homeowner remained the owner of record and "0" if they did not. PPRC also noted where deed transfers had occurred through a deed of sale or through a foreclosure/trustee deed. A large majority of the properties with deed transfers were foreclosure/trustee deeds.

Given that 87 percent of the homeowners were delinquent when they came into counseling and the foreclosure process in Missouri is one of the fastest in the country, the authors expected that a large number of homeowners would have lost their homes to foreclosure or otherwise gotten a short-sale or deed in lieu of foreclosure.

PPRC's analysis found that 84 percent of the homeowners who sought counseling at Beyond Housing remained the owners of record of their homes at the end of the study period. This is an extraordinarily high rate. Of the 16 percent where ownership changed, 12 percent were because of a foreclosure/trustee deed and 4 percent because of some other form of deed change. (Note: The number of homeowners who did not sustain homeownership is higher than the numbers from the Beyond Housing counseling files because not all homeowners who go through foreclosure contact the agency after receiving counseling.)

As noted earlier, the lack of control group and general limitations of the research budget makes it impossible to separate out the impact of the foreclosure counseling itself on sustaining homeownership and preventing foreclosures. Nevertheless, the extraordinarily high rate of sustained homeownership suggests that counseling matters. Counseling may help homeowners to modify their loans, restructure their family spending plan to make payments, bring their loan current, or identify another work-out program with the bank, such as deed in lieu of foreclosure or a short sale.

It should also be noted that recent research has more formally assessed the impact of counseling on preventing foreclosure, utilizing a more robust research plan and more resources to plan and evaluate counseling. In 2009, the Urban Institute (UI) published preliminary findings of its evaluation of the National Foreclosure Mitigation Counseling (NFMC) program, administered by NWA (Urban Institute, 2009). UI examined approximately 61,000 households that received foreclosure counseling and compared this with another 61,000 household that did not receive foreclosure counseling. They found that the program had modest effects on homeowners who were two to three months delinquent on their loans when they started counseling, but more dramatic effects in terms of helping homeowners "cure" an existing default. Counseled homeowners were 60 percent more likely to avoid foreclosure than those who had not received counseling. Additionally, the Urban Institute study concluded that loan modifications received by homeowners through the NFMC program resulted in significantly monthly mortgage payments after a loan modification (-$454), thereby further reducing the likelihood of future default and foreclosure.

PPRC also examined what factors were correlated with sustainability or foreclosure. The lack of variation in the sustainability data—i.e., the fact that a large majority of the homeowners remained owners of record—restricted the types of analyses that could be done; however, a simple analysis was possible, contrasting the two groups (sustained and not sustained) with a variety of other data about the homeowner, the financial situation and the counseling experience. Among the factors that significantly differ between the two groups are:

- Credit score: Homeowners with higher credit scores were more likely to remain homeowners
- Loan default status: Homeowners who were current on their loan were likely to sustain homeownership. By contrast, homeowners who were very late on their loan were likely to have gone into foreclosure.
- Loan interest rate: Homeowners whose original loan was less that 8 percent were likely to remain in their homes.
- FHA/VA: Homeowners whose loan was insured by the VA or FHA were more likely to sustain.
- Local Grant: Homeowners who received a local grant to bring their loan current were more likely to remain in their homes.

IV. Further Testing of the Sustainability Analysis

After identification of the initial sustainability rate, PPRC undertook additional analysis to ensure that the sustainability results were correct. There are a number of reasons why the analysis might have undercounted the number of foreclosures. First, there is anecdotal evidence from some foreclosure policy experts in the St. Louis region that some lenders are not filing foreclosure deeds in the county assessor offices, effectively shielding their ownership of properties. Additionally, there are a number of cases known to the research team of properties that were under default and where the homeowner/owner abandoned the property; under these cases, the lender might not proceed with foreclosure in order to provide more time to sell the property or might be unwilling to foreclose on the property because of its condition, low value or the relatively low probability a buyer could be found. Under a vacant or damaged condition, a lender might be less willing to go through a foreclosure or file a foreclosure deed, knowing that property conditions might mean that they incur additional costs, including fines from local governments.

The point is that there is evidence that some types of local conditions might suppress the "true" number of foreclosures and thus also suppress the "true" rate of foreclosures among homeowners who received counseling. Ultimately, this "true" number of foreclosures is not known without a great investment of resources in contacting all of the homeowners and inquiring into their status, a time-consuming and costly process. Other types of local data that might give a true picture of vacancy and abandonment, like utility data, are generally not available. Additionally, most local governments do not have the resources or commitment to collect accurate vacancy data; for example, the City of St. Louis does collect vacancy data, but, according to the supervisor in the building division that oversees this process, this data collection is mostly restricted to extremely damaged properties, the sort that are not likely to have been on the market for a long time and therefore not likely to be part of the recent waves of foreclosures.

In an attempt to determine the degree of difference between local foreclosure rates and "true" counts of foreclosures, PPRC acquired U.S. Postal Service vacancy data from the St. Louis County Department of Planning. This individual level data is collected by postal workers on a quarterly basis and thus serves as a good estimate of street-level vacancies. PPRC compared the county vacancy data (for the 3rd quarter of 2009) to the agency homeowner universe to see if any of the homeowners' properties were identified as vacant by U.S.P.S. Only 12 of the sustained homeowners had property vacancy status, about 1 percent of the total of sustained homeowners. On the other hand, only 11 percent of the properties where there had been deed change (foreclosure or short sale) were listed as vacant. This might indicate that either vacancy is not a major issue for this set of properties—that these foreclosures did not result in large number of noticeable vacancies, but were instead purchased by speculators or buyers taking advantage of the bottom of the real estate market.

In any case, the results of this limited vacancy analysis support our conclusion that a large majority of clients remained in their homes and retained ownership at the end of our study period.

V. Federal Policy and the Log-Jam of Clients

On the one hand, the conclusion that about 84 percent of Beyond Housing's clients stayed in their homes and retained ownership is good news. On the other hand, a relatively small proportion of clients (13 percent) were able to modify their loans and another 13 percent bring them current. That means that a majority of Beyond Housing's clients are in "limbo": they neither lose their homes to foreclosures nor are they able to modify into a sustainable loan. For counseling agencies like the one investigated for this analysis, the practical consequence of this is a rising case load of homeowners who need assistance.

Clearly, there are many possible reasons for the logjam of clients. One of the consequences of the rising concern over the rate of default has been a voluntary cessation of foreclosure proceedings by some national banks at various points over the last year and a half. Other lenders and servicers have slowed their default process down as they have attempted to deal with an increasing number of homeowners requesting mortgage modifications under HAMP, initiated in March of 2010. Consequently, a quick examination of the HAMP program is appropriate.

Launched in March of 2009, the Making Home Affordable (MHA) Program represented the Obama Administration's signature approach to preventing mortgage default. Like past programs, it was intended to strengthen the ability of homeowners and local counselors to negotiate for meaningful mortgage modifications. The programs has two main components—a Home Affordable Refinance Program (HARP) for homeowners whose loans are held by the government sponsored entities, and a Home Affordable Modification Program (HAMP) for modifying loans held by conventional lenders. Of the two, HAMP has become the more important program for most local homeowners, and it has also been the more complex and controversial program for the federal government to implement.

The elements of MHA and HAMP emerged slowly over the spring and summer of 2009 and Treasury officials—the agency charged in implementing HAMP—identified and solved critical issues involved in loan modification. For example, in April, Treasury identified a plan to deal with second mortgages (Barnard, 2009) and Congress passes a law in June providing servicers immunization from lawsuits from investors over mortgage modification (Nocera, 2009). Over that time, however, the main components of HAMP have remained the same:

- Incentives for investors: the program provides direct incentives to investors ($1,000) for modifying a loan.
- Modifications: the program supports a variety of modifications to reduce home payments to 31 percent of a homeowner's income, including interest rate reduction and extension of the term of the loan.

HAMP also includes formulas that assist servicers in determining whether the net-present-value (NPV) of a modified loan is worth more than the NPV of a foreclosed property and some requirements under participation that homeowners who have "positive" NPV are offered a modification. However, like past policy approaches, MHA/HAMP encourages principal reductions, although does not compel lenders to offer them.

Clearly, a major problem, as reported by counselors, is that the federal HAMP program is not resulting in permanent modifications, as it was designed to do. As of the end of 2009, 902,626 borrowers had received trial modifications but only 66,465 had received permanent modifications (Making Home Affordable, 2009). Counselors in St. Louis report the same pattern: borrowers are getting temporary modifications but, they are being denied permanent modifications, often for what appear to be arbitrary or petty reasons. According to research by Diane Thompson (2009) of the National Consumer Law Center, servicers of pools of loans have few incentives to modify loans but many incentives to delay the process. In many cases, the interests of the servicer are contrary to the interests of the investors who own the mortgages. There are many other causes of the inability of servicers to modify loans to keep people in their homes, including legal problems with pooled mortgages and so-called "tranche warfare," 2nd lien mortgages, and insufficient numbers of adequately trained staff by the servicers. Local counselors echo complaints in the national press (Rudolph, 2009) that many servicers are unaccountable and unresponsive bureaucracies. For counselors, the temporary and permanent approval process remains a "black box" into which those outside the lending community have little knowledge or control. Ultimately, HAMP, like other federal policy initiatives, have placed strong responsibilities on the part of local counselors to advocate for mortgage modifications, but very little control over the rest of the modification process to ensure equitable solutions for homeowners.

The effect of the "logjam" of temporary loan modifications at the local level is that the client loads of foreclosure counselors are soaring. Beyond Housing's caseload soared from about 100 clients in April 2008 to 935 clients in July 2009. In truth, many of these clients are inactive and do not require frequent counseling. But the fact that they are not resolved one way or the other means they are still on the counselor's caseload and they distract from the services counselors can provide to incoming clients. The federally funded NFMC program does allow agencies to seek additional reimbursement for homeowners who return to the agency for additional assistance; however, it is unclear whether these incentives fully compensate agencies for this additional work.

In short, the inability of the federal HAMP program to generate large numbers of permanent loan modifications is burdening local foreclosure counseling agencies, such as Beyond Housing, making it difficult for them to do their job. The "log-jam" of clients could become a looming tsunami of foreclosures unless the right sorts of incentives and policies are provided for counseling agencies and homeowners to continue to seek solutions to mortgage default and for lenders and services to provide mortgage modifications in an equitable, reasonable and timely manner.

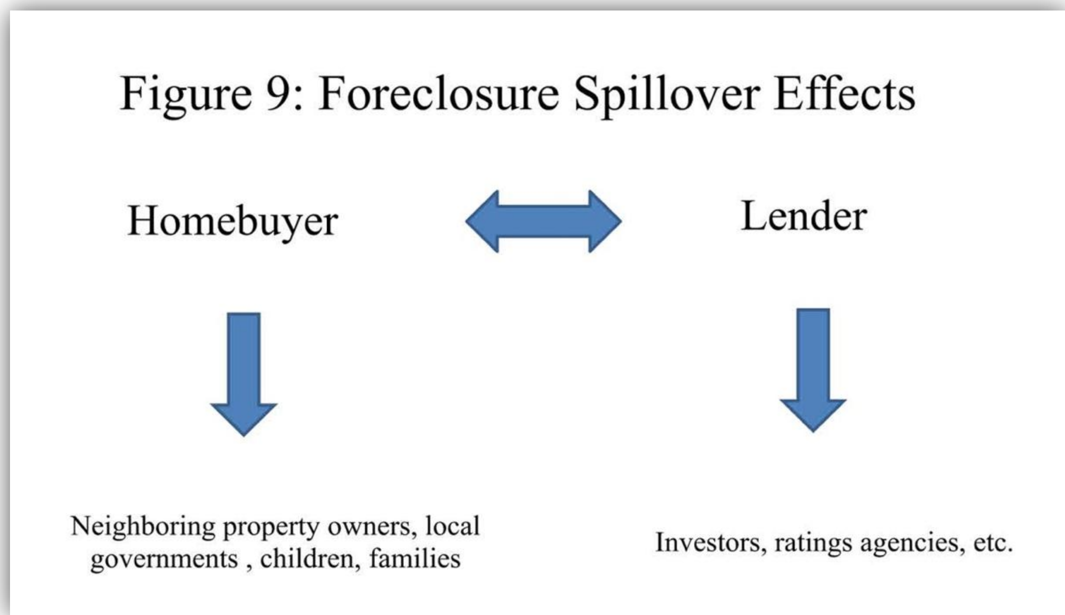
VI. Analysis of Benefits versus Costs

One important question about the impact of counseling is whether it represents a cost-effective strategy for taxpayers at the local, state, and federal levels. Many argue that using taxpayer funds to help homeowners avoid foreclosure creates a moral hazard by rewarding people to take on risky loans. Setting aside the fact that predatory lenders deceived many borrowers, this moral hazard argument ignores the question of the spillover costs imposed on those who not involved in a foreclosure. If these spillover costs are substantial, this justified taxpayer expenditure to prevent foreclosures, through counseling and other programs, in order to minimize these costs. Here we examine the spillover costs of foreclosure for local communities like St. Louis to see whether they justify expenditures on foreclosure prevention efforts.

Computing those costs is the first step to understanding the true benefits of the minimal public incentives that local, state and federal governments have made into foreclosure counseling programs. By lining up the costs of foreclosures with the costs of counseling, policy analysts at all levels of this "foreclosure policy system" receive a more complete picture of the importance of counseling—not just in the sense of equity and fairness but also in the sense of the long terms costs to local, state and the national economy.

The Costs of Foreclosures

This analysis of the costs of foreclosures starts with the premise that a mortgage is a contract between a homebuyer and a lender. As a purely private transaction, mortgages, and violations of mortgage contracts resulting in foreclosures, do not directly concern society or the taxpayers in general. However, there are three reasons why public action on foreclosures might be justified despite the essential private nature of the transactions. First, research on foreclosures has repeatedly demonstrated that foreclosures have many negative spillover effects that impact those not directly involved in the mortgage transaction. Figure 9 conceptualizes these costs, including costs to neighborhood property owners, local communities, children and families.



To the extent that these costs can be quantified and are significant, they provide a justification of the intervention of government in both the prevention of foreclosures as well as the mitigation of their effects.

Additionally, mortgage foreclosures have had a huge impact on the macro-economy. "Toxic" assets in the form of foreclosed mortgages played a key role in plunging the American economy into a deep recession. The federal government has attempted to minimize these negative spillovers through policy interventions such as bank bailouts and re-regulation of mortgage markets. Government policy towards foreclosures, then, follows the logic of the intervention of the federal government in the banking crisis as another attempt by the government to foster economic recovery and ensure economic growth.

Third, the distribution of foreclosures and, as the initial impetus of the foreclosure crisis, subprime lending indicates that any negative spillover effects will not be equally distributed across the region. Low-income and especially minority neighborhoods were targeted by predatory lenders and the spillover effects of foreclosures are most severe in these neighborhoods. Addressing these inequities is another rationale for government intervention.

In light of these justifications for government intervention, PPRC's analyzed the *local* effects of foreclosures in the St. Louis metropolitan area in order to compare them to aggregate and average public investments in foreclosure counseling. This part of the analysis computes an estimated aggregate and average impact cost that can be roughly compared to the cost of counseling. It should be noted that this analysis does not represent a full-scale cost benefit analysis because of data limitations.

The local spillover costs of foreclosure come primarily in three forms:

- declining property values;
- social disorder and crime; and
- local government fiscal stress.

For each, PPRC summarized what is known about the magnitude of these local spillover effects, with special emphasis on St. Louis City and County.

Declining Property Values

Scholarly research has consistently found a negative impact on the market value of homes located within approximately 1/8 of mile (660 feet) of a foreclosure. One of the most broadly based studies covering 628,000 repeat sales transactions in 13 states found a negative impact of 1.3 percent on properties located within a 300 foot radius of a foreclosure and a drop of 0.6 percent within the 660 foot radius (Harding, Rosenblatt & Yao, 2008). A study of St. Louis County foreclosures between 1998 and 2007 found a drop of about 1.0 percent in the sales prices of properties located within 1/8th of a mile of a foreclosure (Rogers and Winter, 2009). In a study of Chicago, Immergluck and Smith (2006) found a drop in market value within the 1/8 of a mile radius that varied from 0.9 percent to 1.8 percent.

Using the conservative Immergluck and Smith (2006A) estimate (0.9 percent), the Center for Responsible Lending (CRL) calculated the effects on property values of foreclosures due to subprime loans made in 2005 and 2006 for metropolitan areas across the United States (Center for Responsible Lending, 2008). They estimated that on average homeowners located near a foreclosure will lose $5,000 in value. Note that this loss will increase with multiple foreclosures in the neighborhood. Based on a total of 5,684 foreclosures in St. Louis City and County affecting 370,049 neighboring homes CRL estimated a decrease in home values of over $628 million. Because home values here are lower than in states like California or Florida, the average decline per neighborhood foreclosure was less—$1,660 in St. Louis County and $1,724 in St. Louis City.

It should be noted that CRL's estimate of the aggregate loss of value due to foreclosures is conservative because it was only based on foreclosures due to subprime lending. Their estimate is based on

4,146 foreclosures, when in fact St. Louis County experienced more than 7,500 completed foreclosures in 2008 and 2009 and St. Louis City 3,420 foreclosures in the same period (based on St. Louis County and St. Louis City Assessor's Offices' data, 2010).

Social Disorder and Crime

By creating involuntary moves, foreclosures disrupt the community fabric and deplete social capital. Children are in many ways the most disturbing innocent victims of foreclosure. When they are pulled out of one school and put in another their learning is disrupted. According to one estimate, 1.952 million children were impacted by foreclosures as a result of subprime loans made in 2005-2006 (Lovell & Isaacs, 2008). They estimate that 33,900 children were impacted by foreclosures in Missouri. Applying the same rate of children impacted by each foreclosure to St. Louis County, 9,418 children were impacted by foreclosures in St. Louis County between 2007 and 2009 and 4,583 children impacted in St. Louis City. This imposes huge costs on families, communities, and schools. Frequent residential moves can increase violent behavior in high school by 20 percent and reduce the chance of graduating from high school by more than 50 percent (Rumberger, 2003). Foreclosures can also damage the health of children, negatively affecting diet and healthy body weight. In addition, foreclosures put stress on families, leading to higher rates of divorce, child abuse, and addictive behaviors.

Another type of impact is the impact of foreclosure on crime. According to the theory of "broken windows," signs of disorder in a neighborhood, as small as a broken window that is not fixed, encourage crime (Kelling & Coles, 1996). Foreclosures, especially when the home lies vacant and not properly maintained (such as tall grass or trash out front), can create a sense of disorder in a neighborhood and encourage crime. Research has confirmed this connection. A study of Chicago found that for each 1 percentage point increase in the foreclosure rate, the number of violent crimes in a census tract will increase by 2.33 percent (Immergluck & Smith, 2006B). A study by the Charlotte-Mecklenburg Police Department found that both violent and property crime rates were higher in the high-foreclosures neighborhoods compared to neighborhoods that had not yet experienced high rates of foreclosure (Bess, 2008).

Local Government Fiscal Stress

The disruptions of foreclosures on families is likely to impacts further downfield—to school systems as children change schools or are absent, on local governments as families seek social services or public services and on businesses as employees miss work days and reduce overall productivity. However, while these costs are likely significant, there is no clear method of estimating them. By contrast, other types of impacts that involve governmental responses can and have been estimated through research. The impact of foreclosures on local governments is double-edged—both on the revenue and expenditure side. On the revenue side, most analysts agree that local governments will decrease revenues at the same time that they need to increase expenditures in response to them. The impact of foreclosures on tax revenues, especially property taxes, is significant. Under the CRL scenario presented above, St. Louis City and County will suffer an estimated $628 million drop in home property values due to subprime loans made in 2005 and 2006. Once assessments catch up with declining property values, governments will be forced to increase local tax rates to maintain property tax revenue. Additionally, local governments will also have to deal with increased tax delinquencies and failure to pay utilities—adding to costs as well as decreasing revenues.

The best scholarly study on extra costs to cities due to foreclosures examined Chicago (Apgar & Duda, 2005), quantifying the costs of foreclosure based on five scenarios. If a property goes into foreclosure and is quickly put back on the market, they estimate it will cost the local municipality only $430. At the other end, if the foreclosure leads to vacancy, abandonment, and fires, the cost to the local municipality soars to $34,199. Based on the Apgar and Duda study, the Joint Economic Committee of the U.S. Congress estimated average costs at $19,227. If this "average" cost of foreclosures is multiplied to just half of the foreclosures in St. Louis County and the City of St. Louis between 2007 and 2009, the result is extra expenses to municipalities in St. Louis County of $114 million and $56 million to St. Louis City.

Summary of Costs of Foreclosures

Table 5 summarizes the aggregate and average costs of foreclosures in St. Louis County and St. Louis City. Notwithstanding the crudeness of this estimate, clearly foreclosures are imposing significant burdens on local governments in St. Louis County. The average cost associated with a foreclosure is about $19,000 for both local governments in St. Louis County and in St. Louis City. Local governments will face additional costs as declining property values translate into declining government revenue; for St. Louis County, each foreclosure is associated with a decline of about $88,000 in surrounding property values and for St. Louis City each foreclosure is associated with a decline of about $167,000.

Table 5: Summary of Local Costs of Foreclosures

Type	Method	Who Will Bear Costs	Aggregate Impact	Average Impact Per Foreclosure
Property Values	Based on CRL (2008) analysis of average impact of foreclosures, using Immergluck/Smith (2006) 0.9% reduction in property values for all residential within 1/8 mile of the foreclosure	homeowners (local governments via property taxes)	$366,515,369 (St. Louis Co) $257,297,782 (St. Louis City)	$88,402 $167,293
Children and Families	Based on Lovell/Isaacs (2008) estimate of children impacted by foreclosures in 2007 through 2009	families, local schools, local governments	9,418 (St. Louis Co) 4,513 (St. Louis Co)	na na
Crime	Based on Immergluck/Smith (2006) estimate of on property and person crimes	families, local governments	1% increase in foreclosures, 2.33% increase in violent crimes	na
Local Government Expenses	Based on Joint Economic Committee estimate of the average cost, using Apgar/Duda (2005) study of local government responses to foreclosure, for all foreclosures in 2007 - 2009	local governments	$114,266,061 (St. Louis Co) $55,604,484 (St. Louis City)	$19,227 $19,227

The Costs of Counseling

On the other side of the equation stand the public investments provided to housing counseling agencies for their work with homeowners. While these vary from place to place and over time, the agency studied for this report has just two:

- federal incentives for foreclosure counseling paid per homeowner by NWA as a part of NFMC; and
- local rescue funds that provide funding for both counseling as well as gap funding to help homeowners bring their mortgage current in order to avoid foreclosures.

The first set of incentives result from a $180 million federal appropriation first made in December of 2007 as a part of 2008 Appropriations. The appropriation was specifically targeted to NWA to distribute to eligible agencies, including HUD-approved counseling agencies. The agency studied for this report has received three rounds of funding under NFMC, with a fourth application pending. The agency receives up $350 per homeowners as the homeowner receives certain levels of service. Level 1—for which the agency receives $150—includes the basic counseling session and budget review; Level 2 (formerly 3)—another $200—involves more extensive counseling as well as working with the homeowner to contact lenders and servicers. The vast majority of the homeowners served with the agency were at Level 2. Additionally, the agency is allowed to charge an additional 20 percent for administrative expenses, which would be 20 percent of either the $150 Level 1 reimbursement or the $200 Level 2 reimbursement. At the highest, the agency's average federal investment in counseling can be no more than about $420.

Additionally, Beyond Housing receives funding from the City of St. Louis' Affordable Housing Trust Fund, with about half of the total funds going towards counseling and administration and half going to assist homeowners cure their default. Other grant funds provided by Genworth are not geographically restricted and can go to any homeowner in the region. While only 3% of the homeowners served by Beyond Housing received a local rescue grant, many more city residents received counseling services—29% of all homeowners. Further, rescue funds seem to positively contribute to sustainability: Only 1 client who received a local rescue grant failed to sustain homeownership—3% of all grant recipients.

Because of the source of the funds, only city residents are eligible for the rescue grant and the counseling and administration costs can only be applied to counseling for city homeowners. A breakdown of those costs provided by Beyond Housing for all of the Alliance members show that there is approximately a $135 per city homeowner in counseling and administrative costs and that an additional $1025 on average is invested in city funds per homeowner that received a city grant to help bring their mortgage current.

In summary, current public investment in foreclosure counseling ranges from $420 at the lowest to about $1700 for those homeowners who received a city grant. These costs are significantly below the costs of foreclosures, providing initial evidence that further investment in foreclosure counseling makes sense.

VII. Conclusion

Two primary conclusions emerge from this report. The first is that a very high percentage of Beyond Housing clients stay in their homes and retain ownership. Our research design does not enable us to determine what part of this successful outcome is due to the foreclosure counseling, but our results are consistent with a recent methodologically strong national study concluding that foreclosure counseling does prevent foreclosures (Urban Institute 2009). While it is good news that most of Beyond Housing's clients remain in their homes, the "bad" news is that the vast majority of them probably have not been able to refinance or modify their loan. Therefore, most of them are still at risk for foreclosure—even those who self-cured still might have a loan that is predatory and ultimately unsustainable. The log jam of clients in "limbo" is putting a strain on Beyond Housing counselors. An important cause of the rising number of clients who have neither been foreclosed upon nor permanently modified is the federal HAMP program, which, from a national and state perspective, has successfully put a large number of homeowners into temporary modifications but failed to move significant numbers of homeowners into permanent loan modifications.

The second major finding of this report is that the spillover costs of foreclosures in the St. Louis region justify additional investments in foreclosure prevention. Most of the investment in foreclosure counseling and prevention comes from the federal government under the NFMC NeighborWorks program and the HAMP program. Yet foreclosures impose substantial spillover costs on local homeowners, municipalities, schools, families, and children. Many of these costs are unquantifiable. Local support includes funding provided by the City of St. Louis Affordable Housing Trust Fund, under the championship of Mayor Francis Slay, used for both counseling and a rescue fund, and $150,000 in funds from St. Louis County Supervisor Charles Dooley for counseling and grants for homeowners in unincorporated parts of the county. Given the large spillover costs of foreclosures, the relatively modest costs of counseling, and the evidence from our study (and from a recent national study) that "counseling matters," further investments in foreclosure prevention at the local level seem justified.

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