



— LOSS MITIGATION —

Here Comes the Neighborhood

Born and Bred at the Grassroots Level, Community Agencies Are Uniquely Positioned to Promote Positive Outcomes from Loan Modifications

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Pick practically any spot on the map. Chances are, the locale you landed on is feeling the effects of foreclosure. Fact is, communities from coast to coast are pockmarked by default and the deep scars it leaves behind—depressed property values, rundown homes, blighted neighborhoods, and ruined lives. And pouring salt into the wounds, popular federally mandated foreclosure solutions available to help struggling homeowners are proving somewhat hit or miss. The Home Affordable Modification Program (HAMP), while a noble effort with strong motives, is not enjoying large-scale success. Servicer-led loan modifications are likewise well regarded but are also seeing high rates of redefault, often in just a few months. Some critics say these solutions are only spreading out the foreclosure problem over several years, having the unintended consequence of prolonging a housing recovery.

Faults and all, the imperfect options offered by servicers in the way of loan modifications easily eclipse the “solutions” some desperate homeowners find when they search for help on their own. Payday loans, loan-modification scams, and so-called foreclosure experts cost homeowners thousands of dollars they just don’t have. This deepens their financial burdens and makes them less qualified for loan

modifications. Even simple Internet searches bring up the good with the bad. A search of “foreclosure help” resulted in more than 17 million references on Google (page one had only two reputable options) and 18.6 million on Bing (three reputable options on page one).

In the scramble for answers, two simple truths are overlooked: 1) No loan modification solutions can be permanent if the root causes of the delinquency remain unaddressed, and 2) these causes are best addressed at a local level.

DELINQUENCY DETERMINANTS

Thankfully, there is community-centric help out there for homeowners seeking workable solutions to their financial issues. Locally based databases like MortgageKeeper, for example, provide links to thousands of national and local nonprofit and government service organizations that offer help in multiple service categories. While it’s a powerful tool for homeowners and servicers, on the backend, this data also uncovers the triggers that are forcing homeowners to miss mortgage payments.

In the first four months of 2010, consumers were connected to local resources 175,000 times through MortgageKeeper’s database. A look at the most popular service category searches in 2009 usually yielded

➔ **CONNECTING THE RIGHT PIECES**

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“employment services” as the number-one consumer need followed by utility costs and prescription drug expenses. (Not many surprises there.) This year, however, is showing something different among the top three categories:

- » Nonprofit financial counseling,
- » Employment services, and
- » Food assistance.

LOOKING AT THE BIG PICTURE

Often, a delinquent homeowner has more concerns on his or her plate than just the mortgage. Counseling and food assistance have become more popular topics for struggling homeowners. The search for relief through financial counseling is an expected one given that many are facing mounting debt as unemployment benefits expire or periods of decreased income continue.

But the rise in the need for food assistance is a new wrinkle. Here’s a category that is as basic as a roof over one’s head, yet it is often the second largest budgetary expense after housing. It always requires a local resource for assistance, and savings on food can be a strong component of a more balanced financial picture. However, this is not the sort of information servicers tend to have available for their customers.

If homeowners could find this help—if their food costs, job training and placement, utility, and counseling needs were addressed—would it mean their mortgage would be paid as well? In our experience, the answer is a resounding “yes.”

HELP NEAR-AT-HAND

If servicers can offer contact with localized organizations to address these root

causes of delinquency, their own solutions to a struggling homeowner’s issue—whether it be HAMP related or in-house loan modifications—stand to have a much higher degree of success than loan modifications alone. Offering referrals to vetted, well-connected agencies geographically close to a homeowner has several strong benefits:

- » Homeowners learn about different avenues for help—usually help they never knew existed. This creates hope and increased financial confidence.
- » Even customers who ultimately lose their homes to short sale or foreclosure can benefit from local resources to find affordable rental housing, reduced food expenses, and prescription drug assistance.
- » Local help is rooted in the unique needs of the community, with financial assistance programs funded by local and state government, as well as foundations and federal programs. This help is also more likely to be delivered face to face.
- » Servicers that can refer customers to viable, local resources improve their reputations, customer service, and borrower contact rates as customers feel cared for and heard by their servicers. Homeowners will be more likely to contact their servicers at the first sign of trouble if they see that servicers offer direction to quality assistance.

Jill Spickelmier, a housing counselor with Consumer Credit Counseling Service of San Francisco, uses MortgageKeeper data to offer local resources to her clients. “People are appreciative that I can give them a referral,” she said. “They don’t realize that they can get food for free in their area, and a lot don’t realize that there are nonprofits that offer utility payment assistance.

“Clients call back and tell me that the referrals have helped. They call back to tell us and to request that we redo their budget. As a result,

they are often eligible for assistance from their servicer that they could not have gotten before.”

An April survey conducted by MortgageKeeper of 350 housing counselors—those on the mortgage crisis front lines—determined the following:

- » 93 percent of struggling clients were grateful for local resources—showing the extent and scope of their financial and emotional distress.
- » 50 percent of clients who reported back to their counselors found savings of \$100 to \$250 per month as a result of following up on nonprofit referrals.
- » 16 percent of those reporting back reduced their monthly expense by at least \$250 after using local resources.

- » 70 percent of the counselors said that food assistance, utility assistance, and prescription drug assistance made the biggest and most immediate impact on a client’s monthly budget.

These extra dollars could mean the difference between qualifying for a loan modification and missing the cut. Lower monthly expenses could also be the difference between staying current with a modified mortgage payment and losing the home altogether.

HOW TO THINK LOCAL

It’s clear that servicers need more tools to help delinquent homeowners—as well as ways to create stronger, longer-lasting loan modifications. We believe that referrals to

nonprofit and government agencies may be the key. Our work points to the consumer demand for such services and to the success that follows these referrals.

So what can servicers offer to their far-away customers?

- » *Call 2-1-1:* United Way manages a number in most U.S. communities that can connect customers to basic human services in that area. The list of agencies is long and extensive—much like the Yellow Pages—but help is available if the customer is willing to page through.
- » *Search the Net:* Steer your customers to tried-and-true national intermediaries who, in turn, can make connections to local resources. It adds more steps to a customer’s search for help but can ultimately send them in a reliable direction.
- » *Offer direct access to local referrals through your Web site:* Savvy servicers set themselves up as the experts. They offer links to reliable options with sound, proven customer service protocols. This allows customers an opportunity to find solutions fast—perhaps even before they call your customer service line—and makes them more likely to qualify for loan modifications, HAMP, and other assistance you provide. MortgageKeeper’s database, MKDirect, is available through servicer Web sites to offer selective, high-quality solutions for consumers throughout the United States.

Servicers who suggest helpful, high-quality local nonprofit and government organizations to their customers reap the benefits of stronger loan modifications, an improved reputation, and customers with healthier monthly budgets. As a result, loan modifications of all flavors will have greater long-term success rates, communities will profit, and ailing neighborhoods will be on the mend. It’s an economic and social comeback from which we all will benefit. **DS**

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