Chapter 11
The Role of Default Counseling for Mortgage Borrowers in Financial Distress

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Homeownership has long presented an opportunity for economic mobility. Starting in the mid-1990s, the housing boom spurred record numbers of home sales throughout the United States (Gramlich, 2007). However, as housing values decreased and employment markets slackened in the latter half of the 2000s, the "American Dream" turned sour. The share of single-family owner-occupied first-lien mortgages starting foreclosure broke new records with each subsequent quarter. The Mortgage Bankers Association's National Delinquency Survey (2009) shows that in 2009 approximately one in seven mortgages were seriously delinquent, and almost two million loans were in the formal foreclosure process.

Homeownership has been promoted through a range of policy rationales (Collins, 2007a). Two common rationales are asset building (Sherraden, 1991) and improved social and family outcomes (Aaronson, 2000). While owning a home allows families to buy into a leveraged investment through a mortgage, recent events suggest that some homeowners have experienced the negative effects of this leverage and will own fewer net assets as a result of trying to own a home. As foreclosure statistics continue to surpass record levels, approaches to preserving homeownership have become increasingly important. Default counseling is central to current approaches for addressing the rise in foreclosures (Collins & Orton, 2010).

An understanding of the foreclosure process and its alternatives helps place default counseling in context. Mortgages are legal contracts in which the borrower (mortgagor) receives a sum of money from a lender (mortgagee) under specified repayment terms. These terms include a lien on the home that gives the mortgagee the right to use the home to pay off any unpaid balance. A violation of the contract could result in a default in the contract on behalf of the borrower. Default most commonly occurs when a borrower fails to make payments on the specified repayment schedule. Freddie Mac data show that unemployment and loss of income

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were the most common reasons why borrowers fell behind on their mortgages (causing 36% of delinquencies), with illness in the family (21%) and excessive expenses (14%) being the second and third leading causes. Other causes of delinquency included marital problems, death in the family, and property problems (Freddie Mac, 2007).

Depending on federal, state, and local regulations, lenders have some discretion over when to rule a mortgage is in default and then exercise their right to repossess the home through the legal foreclosure process. Because foreclosure generally results in losses for lenders, loan servicers, and investors, there are economic incentives for offering alternatives to foreclosure. In the event of nonpayment and in order to avoid the costly foreclosure process, lenders might offer a forbearance, which is an agreement to delay foreclosure. Lenders might also offer a loan modification, which formally modifies the original legal contract by reducing interest and/or principal. Such options benefit borrowers if the forbearance or modification allows the borrower to overcome a temporary financial shortfall in income, an unexpected increase in expenses, or an increase in the payment required for an adjustable rate loan. Default counseling is often considered a mechanism that can help borrowers and lenders pursue alternatives to foreclosure.

It is important to note that borrowers who have mortgage loans that are held in securitized bond issues may face additional barriers in the process of finding alternatives to foreclosure compared to borrowers with loans held directly by a lender. A third-party servicer has different incentives than a lender for offering a loan workout. Third-party servicers operate by collecting payments at the lowest possible cost. While a lender can weigh the costs and benefits of the decision to workout or foreclose on a loan, a third-party servicer is an agent for all of the investors who own a mortgage security. Servicers tend to be bound by relatively complex "Pooling and Servicing Agreements" (PSAs). Large servicers manage many pools of loans and may operate under hundreds of PSAs, making coordination of standard procedures challenging. Under most PSAs, servicers are not paid to negotiate workouts but are instead paid to execute a foreclosure, creating an incentive to pursue the option least favorable to the borrower and perhaps even the investor (Piskorski, Seru, & Vig, 2009).

The Role of Default Counseling

At its broadest, default counseling is part of a continuum of services providing information, advice, and guidance on how to deal with debt problems (Pleasence & Balmer, 2007). Default counseling includes services provided by for-profit and non-profit organizations, but it is generally provided by the latter at no charge to clients. Default counseling programs may be based on a variety of delivery models including self-help approaches, telephone support, or face-to-face counseling. In recent years, telephone counseling has become more common as counseling providers seek to increase capacity and make counseling more convenient and accessible.

Consumers may enter the counseling process through a referral from their lender or loan servicer, or in response to local outreach and advertising efforts.

Regardless of the delivery mode, most counseling programs focus on a few key tasks: (1) diagnosing the nature of the client's financial problem(s); (2) reviewing the client's income and expenditures in order to reduce budgeted spending items and free income for debt repayment; (3) prioritizing the order of payment of non-mortgage debts; (4) maximizing potential income by checking clients' eligibility for public programs, welfare benefits, and other social services; and (5) developing a strategy for mortgage loan repayment, which may include seeking a loan modification or selling the home.

Interviews with foreclosure counseling professionals suggest that an important role of the counselor is to provide consumers with an opportunity to "tell their story." Counselors describe a common process in which borrowers spend 15–30 minutes describing the circumstances of obtaining their mortgage, the "trigger event" that caused a payment disruption, and any self-admitted mistakes or regrets. Borrowers also describe frustration with their circumstances, which often include complex family situations that impede earning sufficient income or changing housing. Borrowers frequently share experiences of dealing with their lender or loan servicer, at which time the counselor may discover that the borrower does not distinguish between these two roles. In general, a lender is the entity that makes the initial loan, and the servicer is the entity that collects monthly payments from the borrower. However, many borrowers fail to distinguish these two roles and therefore use these terms interchangeably. During the beginning of the counseling session, many borrowers also demonstrate confusion about their loan terms and appropriate next steps for resolving their delinquency. Experienced counselors plan to allow time for these discussions before launching into budgeting and repayment options. The length of a counseling session varies, though initial sessions typically last 1 hour. Telephone-based counseling sessions tend to be shorter than face-to-face sessions (Collins, 2007b). Following the initial session, clients may attend one or more additional sessions.

The U.S. Federal Government provided $50 million for all types of housing counseling in 2008 through the U.S. Department of Housing and Urban Development's housing counseling program, which represented an increase of $30 million since 2001 (Herbert, Turnham, & Rodgers, 2008). Approximately 1,800 nonprofit agencies receive these funds to support their counseling programs, which served over 1.7 million individuals in 2007. Only 16% of these individuals were seeking default counseling, although the number of default counseling clients increased by nearly 50% from 2006 to 2007 (Herbert et al.) (http://www.huduser.org/Publications/PDF/hsg_counsel.pdf). In 2008 and 2009, the U.S. Congress allocated $410 million in additional funds to specifically address foreclosure issues through the National Foreclosure Mitigation Counseling program. This sum represents a significant national investment in default counseling. Aside from federal investment in counseling, the HOPE NOW initiative of major lenders and servicers also provides considerable private support for counseling sessions. Based on a typical $100 reimbursement rate and close to one million clients served by the HOPE national phone counseling hotline, HOPE NOW has provided an estimated $100 million to counseling agencies throughout 2008 and 2009. Paralleling trends in the public sector, private investment in default counseling has likely increased significantly over historic levels.

Rationales for Default Counseling

There are several rationales for offering publicly subsidized default counseling. One common policy rationale is that because mortgages are complicated financial contracts, consumers may struggle to comprehend their legal rights and contractual obligations. Some consumers, particularly those who lack experience with or knowledge of dealing with financial problems, may not know what steps to take when facing mortgage default and may therefore need assistance before they can move forward. Bucks and Pence (2008) find that low-income mortgage borrowers are the most likely to underestimate how much the interest rate on their loan could change. Minority borrowers are 30% more likely not to know their interest rate, and low-income borrowers are 28% more likely not to know their rate. Similar effects are established for borrowers with less education. Low-income consumers with less than a college degree are among the least accurate and informed about the terms of their mortgages. In a study of investment knowledge and hypothetical retirement plan choices, Agnew and Szykman (2005) find consumers with lower levels of financial knowledge were less likely to use provided information and more likely to demonstrate signs of information overload. Together, these studies suggest that some groups of consumers, particularly those with lower incomes, lower educational attainment, and of minority races, exhibit different behavior when confronting mortgage default and may be less likely to seek out alternatives to foreclosure. To the extent counseling is targeted to these populations, and in turn is effective in improving borrowers' decision-making, counseling may play an important role in providing technical information and advice to borrowers in default.

A second rationale for publicly subsidizing default counseling is that consumers in financial distress may be unfamiliar with the public programs that are available to them. In contrast, the counselor has repeated experience with clients in similar circumstances and knowledge of the array of programs available. The role of information on take-up of social programs has been examined in a number of contexts (Daponte, Sanders, & Taylor, 1999; Heckman & Smith, 2004). Mortgage default counseling requires borrowers to opt in to the counseling program. As opposed to programs and services that automatically provide benefits to recipients, opt-in programs require participants to voluntarily sign up for the program in order to receive benefits. Any program that requires an affirmative "opt in" will result in the failure of some eligible individuals to apply. In the case of default counseling, publicly provided default counseling may connect individuals with default mitigation and other public programs about which they may be unfamiliar.

In 2009, the primary federal policy tool that focuses on consumer mortgage default is the Making Home Affordable (MHA) program. This new initiative was launched with $75 billion to support nine million loan modifications before the program expires in December 2012. Borrowers must opt in to the MHA program and must complete application forms much like those used in underwriting new mortgage loans. The lender then accepts or rejects the application depending on whether the borrower meets the program's guidelines, which require a documented hardship and stable income. The terms of the program subsidize lenders and servicers that reduce monthly payments to 31% of the borrower's verified income. After 5 years, the lender may gradually increase the monthly payment. The structure of the MHA program, especially its opt-in application process, raises concerns that otherwise eligible individuals will not apply for and benefit from the program. Given that private lenders negotiate loan modifications with individual borrowers, underserved borrowers, particularly lower-income and minority borrowers who lack experience negotiating with lending institutions, may be less likely to know about the MHA program and to successfully navigate its application process. In addition, many borrowers received their loan from a third-party mortgage broker or an independent loan sales agent and have no direct connection to a lender. This lack of knowledge may result in the failure to apply for the MHA program or in the submission of incomplete and therefore unsuccessful applications. Thus, default counseling may assist borrowers in overcoming information failures and help them access public programs designed to help individuals who are facing financial problems.

A third rationale for the public support of default counseling is to aid borrowers during a time of intense emotional distress in order to help them overcome information and communication failures. Mortgage borrowers facing financial distress often exhibit anxiety due to their inability to pay their bills, as well as from the trigger event(s) that caused the disruption in payments (e.g., job loss or a health emergency). A distressed psychological state creates a tendency to focus on immediate issues and ignore other information. Past studies suggest that certain forms of anxiety cause people to process information less completely and effectively (Aylesworth & MacKenzie, 1998; Conway & Giannopoulos, 1993; Sanbonmatsu & Kardes, 1988; Schwarz, Bless, & Bohner, 1991). Data from mortgage lenders indicate that as many as one-half of borrowers have no contact with their lenders by the time foreclosure proceedings begin, despite vigorous outreach efforts by lenders and servicers during the default period (Collins, 2007a; Cutts & Green, 2005). Focus groups conducted with low-to-moderate income borrowers in Chicago illustrate this phenomenon (NHS, 2007). Borrowers described no longer answering telephone calls, ignoring the doorbell, and "sticking all my mail (unopened) in the couch." Borrowers also described being "paralyzed" and simply "waiting to be kicked out." Borrowers either did not notice their lender's attempts to contact them or became so anxious about what might happen that they avoided all contact. If a borrower in mortgage default can connect to a default counselor, the counselor can relay the importance of paying attention to the situation and taking action. Consequently, default counseling can help connect borrowers to their lenders and help them implement a strategy for repayment, rather than simply waiting for the foreclosure auction.

A final rationale for publicly subsidizing default counseling is that the counselor may play an important role as a trusted advisor at a time when the borrower is unsure whom to trust. Especially in the case of a nonprofit, third-party counseling agency, the consumer may view the counselor as more objective and trustworthy than a lender or other entity. Borrowers may be more willing to divulge information to a counselor about their economic circumstances than they would be to their lender. Compared to a lender, counselors may be able to explore more sources of income and a wider range of spending reductions with borrowers. Therefore, the counseling process could result in borrowers freeing up more cash flow for repayment. For borrowers who are unlikely to catch up on their mortgage payments, the counselor may provide an unbiased assessment of the situation and guidance on selling the home. In interviews, counselors frequently mention that an important question in every session is, "Do you really want to keep this house?" As opposed to a lender or real estate professional who may benefit from the borrower's next steps, borrowers may view a counselor as an unbiased source of information concerning the decision to repay, sell, wait for foreclosure, or seek another alternative.

Despite these potential roles for counseling, there remain several critiques of default counseling. Common complaints are that counseling is not offered widely enough and that counselors are of inconsistent quality (Hagerty, 2008) Another critique is that counselors generally lack legal expertise and may not recognize when borrowers could or should take legal action (Quercia, Gorham, & Rohe, 2006). Counselors may also be unfamiliar with local context and consequently fail to make referrals to service providers and programs in the borrower's community. Furthermore, some critics contend that default counseling becomes a distraction from more significant policy issues. While counseling may not be harmful, some scholars argue that it is more effective to focus on adopting stiffer legal protections in the mortgage market than to expand default counseling services (Willis, 2008). While counseling represents one of an array of policy responses to mounting foreclosures, it is likely the case that expectations for default counseling should be tempered. For borrowers with a drastically reduced income or a chronic health problem, especially when combined with a mortgage balance that is much greater than the value of their home, without significant subsidy, counseling will not enable borrowers to overcome their financial problems.

Clearly, intervening early in the default period allows for more potential solutions since borrowers are not as far behind on their mortgage payments and can take action to prevent a further decline in their ability to pay. In addition to facing relatively less economic hardship and having lower outstanding balances, borrowers who seek help earlier in the process may be among the most motivated to make changes and to keep their homes. Those approaching counseling in a desperate last attempt to save their home after months of inaction may be signaling their lack of motivation to make major changes. Overall, some borrowers will lose their home to foreclosure regardless of intervention efforts, especially those facing permanent job losses, health problems, or disabilities combined with significant losses in home values.

One argument against public support for default counseling may be that if counseling is effective, borrowers and lenders should bear the costs of counseling without public subsidy. For individuals, foreclosure is costly because the sale of a home often does not produce enough income to cover the unpaid principal and related expenses of foreclosure. There are also the immediate costs of finding new housing and moving the contents of one's home to a new location. Furthermore, foreclosure causes long-term damage to the borrower's credit record. Aside from financial losses to the borrower, foreclosure is linked to a host of other personal and psychological impacts (see Balmer, Pleasence, Buck, & Walker, 2006; Robertson, Egelhof, & Hoke, 2008). For lenders, the foreclosure process takes 12–18 months to resolve, tying up human resources and other assets. According to Cutts and Green (2005), lenders lose an average of $44,000–$58,000 per completed foreclosure. Given the benefits of avoiding foreclosure for borrowers and lenders, some observers may argue that public subsidies for counseling are unnecessary due to the strong financial incentives to resolve the default and avoid foreclosure. From this perspective, borrowers and lenders should have incentives to compensate counselors as much as they would an attorney or a real estate professional.

Despite borrowers' and lenders' financial incentives to avoid foreclosure, there are several problems with relying solely on borrowers and lenders to fund default counseling. First, borrowers are in financial distress, and as such their ability to pay for counseling is impaired. Second, foreclosure has negative externalities for nearby neighbors and local communities. Foreclosures are a form of forced sale in which the home is sold at a discount relative to prevailing home values. A long foreclosure process may leave a property in poor condition, requiring repairs and maintenance. Deteriorating properties may then lower the local standard of property maintenance and discourage investment by nearby property owners. Lin, Rosenblatt, and Yao (2009) examined foreclosure and home sales data from 13 states. The authors found that foreclosures suppressed property values within a 300-ft radius of the foreclosed home, with smaller effects extending out to a 600-ft radius. Similar effects have been shown regarding the incidence of crime in areas proximate to higher rates of foreclosure (Immergluck & Smith, 2006a, 2006b). Thus, to the extent counseling can improve a borrower's ability to avoid foreclosure, there are public benefits created by avoiding the costs associated with foreclosure. These public benefits may justify providing a public subsidy for default counseling. It should be noted that many lenders, servicers, and mortgage loan investors provide financial support for default counseling and default counseling agencies. For instance, the national HOPE NOW coalition of major mortgage institutions supports the 888-HOPE hotline, which provides telephone counseling and referrals to over 700 borrowers each day (http://www.hopenow.com/media/press_release).

The Impacts of Default Counseling

In the U.S. there is a general literature on mortgage counseling that dates back to the late 1960s, during which time the Federal Housing Administration mortgage insurance program struggled to manage its troubled Section 235 Program

(Quercia & Wachter, 1996). Nonetheless, little attention had been devoted to the post-purchase segment of the housing counseling industry until recent years. Cutts and Merrill (2008) provide a general overview of how the current incarnation of mortgage default counseling is delivered, focusing on telephone-based counseling services. Despite the dearth of research on default counseling over the past decades, multiple evaluations of counseling programs emerged in the late 2000s.

Collins (2007b) analyzes financial counseling for mortgage borrowers in default. The study's data set is comprised of a sample of 299 clients who received face-to-face and/or telephone-based counseling. The author consulted public records to determine foreclosure outcomes 6–9 months after counseling. The analysis indicates that each additional hour of counseling reduced the probability of negative foreclosure outcomes by 3.5%.[1] The study also compared the effects of telephone and in-person counseling, finding that in-person sessions tended to be longer in duration. Controlling for the additional time involved, neither delivery mode proved superior in terms of foreclosure outcomes or client ratings. However, many clients in the study opted for telephone-based counseling. The telephone-based approach may be popular because it allows clients to deal with critical issues at almost any time of day, does not require transportation, and provides a greater degree of anonymity (Herbert et al., 2008).

Ding, Quercia, and Ratcliffe (2008) evaluate default counseling delivered via telephone. Default counseling was offered to borrowers directly and in response to late payments, rather than based on clients seeking out a counselor. The study included lower-income mortgage borrowers who were 45-days delinquent. A total of 924 borrowers were offered telephone-based default counseling, and 350 participated in at least one counseling session. Using a two-stage selection model to address the concern that more motivated borrowers would also be more likely to accept the counseling offer, the authors estimate the odds of curing the defaulted loan (that is, getting caught up on payments) were 50% higher for borrowers who accepted and received counseling than for noncounseled borrowers. The authors note that the results may be affected by lender practices that dropped 10% of the observations from the data set, as well as by selection effects that may not have been controlled for in their statistical model. Despite these limitations, counseling is associated with positive effects on loan outcomes. Note that this study examines counseling offered proactively and earlier in the default timeline, finding stronger effects than the previously described study by Collins (2007b).

Quercia and Cowan (2008) examine the Mortgage Foreclosure Prevention Program (MFPP) in Minneapolis. The MFPP provides case management, post-purchase counseling, and/or assistance loans. The data set included 4,274 households

[1] Because the number of hours in counseling could be endogenous with the loan outcome, the author constructed an instrumental variable using the number of marketing materials the city used to promote counseling in each zip code. This instrument proved correlated with the number of hours in counseling but uncorrelated with individual foreclosures.

that received intensive services from the program. For each additional hour the program spent on a client's case, the client's odds of avoiding foreclosure increased by 10%. A client who received 8 hours of services had more than double the odds of avoiding foreclosure than a client who received less than 1 hour of services. This study did not control for the problem of clients selecting into services by number of hours, however. In addition, clients received more than counseling services from the MFPP. Together with the program's default counseling component, these additional services may account for some of the positive outcomes associated with the program. For example, there was a particular benefit for clients who had previously received prepurchase counseling.

Collins, Herbert, and Lam (2009) examine one national lender's offer of telephone counseling to delinquent borrowers. In January 2007, 25,695 borrowers who were at least 60 days behind on their mortgages received letters suggesting they call the 888-HOPE hotline to receive assistance from a nonprofit counseling agency unaffiliated with their lender. A separate group of 6,285 borrowers with the same lender received a letter suggesting they call a toll-free telephone number for their servicer but were not given information about the 888-HOPE hotline. The two groups that received each letter were not randomized, but the authors used a propensity score matching method to address concerns about selection bias. The counseling offer modestly improved the number of days borrowers were delinquent. The authors suggest this could be related to an increased use of shorter-term repayment plans, as borrowers engaged in a budgeting exercise with the counselor and were then connected to their lender to catch up on a few payments but not cure the default by paying back all arrears. Other outcomes, including loan cures and borrower–lender contact rates, were not impacted, at least during the relatively short 15-month follow-up period. The authors also combined state foreclosure prevention policies with the letter that offered counseling, finding that the combination of the letter and state prevention policies is associated with a 30% decrease in foreclosure starts and a 12% increase in borrower–lender contact rates. These results suggest that default counseling may be best offered in conjunction with state and local foreclosure interventions, as well as public outreach campaigns.

Orton's (2009) qualitative research in the UK provides insights from the first stages of a longitudinal study. The author conducted in-depth interviews with 59 borrowers who received counseling from six nonprofit agencies that provide face-to-face or telephone counseling. Nearly all interviewees were positive about their experiences. Interviewees identified three key themes that they especially valued: (1) having someone to talk to; (2) obtaining information and options; and (3) being better able to deal with lenders. The study highlights the fact that debt problems are often highly distressing and isolating experiences. Having someone to talk with who listened and was understanding, nonjudgmental, and sympathetic was seen by interviewees as positive in itself. This led to reassurance, with clients immediately benefiting from the knowledge that there was an organization available that could help them. As one interviewee explained, "It's just knowing what you are dealing with makes it so much easier to do. It was so scary before. I thought 'oh my God, I'm going to have my house repossessed.'" In some cases, clients had reached an impasse in negotiations with lenders and needed the counselor's help. Clients reported that their confidence had increased and that they were better informed about the alternatives available to them.

While the literature on default counseling is still emerging, these evaluations suggest that default counseling yields positive effects. The counseling interventions appear to be stronger when offered early in the default process, when offered for a longer period of time, and when offered in combination with other services and programs. Most of these studies focus on loan repayment behavior. While loan repayment is obviously important for lenders and provides evidence about which borrowers are able to cure their loans, other potential outcome measures may also be important. For instance, counseling may help reduce borrowers' stress and enable them to make better or more well-informed decisions. In turn, counseling might improve conditions in the home and reduce negative impacts on children and family. For some families, selling the home may be the optimal outcome if homeownership is no longer sustainable. Overall, past studies tend to focus on curing loans and borrowers' repayment behavior, while overlooking other important program impacts.

Borrower Responses to Default Counseling: A Case Study

Neighborhood Housing Services (NHS) of Chicago, Inc. is a leading provider of default counseling. The agency has provided housing counseling for over two decades and has been a leader in default counseling and mortgage foreclosure mitigation since 2003. In 2009, NHS mailed a two-page survey to 880 households, eliciting 235 responses (27%). The survey was sent to a random sample of clients who attended counseling services from January 2008 through March 2009. In addition, homeowners who were targeted with counseling offers, including newsletters and even proactive telephone calls, were surveyed as a comparison group. Clients in the comparison group had properties with recorded subprime mortgages at risk of default, but they did not seek help from NHS. A total of 46 nonclients responded to the survey, along with 176 clients who received services that ranged from attending a single intake session or workshop to participating in ongoing counseling sessions. Some general descriptive statistics from the overall sample are informative. More than one-third of counseled respondents (39%) agreed that, "without the counseling I would not have known what to do." In contrast, only 23% of counseled respondents claimed counseling was of "low" value, defined as, "I already knew what the counselor told me." These overall descriptive results suggest that counseling may be associated with reduced stress levels and is generally viewed as helpful by clients.

Table 11.1 contrasts the receipt of NHS counseling services with borrowers' mortgage payment status and their individual characteristics, showing that people who seek counseling may be in deeper financial distress than those who do not. Counseled clients were less likely to report being current on their loan than individuals who received no services from NHS ($p = 0.001$). However, based on public records, counseled clients were not more likely to have received a foreclosure

Table 11.1 Descriptive statistics from counseling client survey

	Mortgage payment status (%)		Individual characteristics		
Level of counseling services	Current on mortgage	Received foreclosure notice	At least 4-year college education (%)	Employed full-time (%)	Stress index (1=low, 4=high)
No services ($n=59$)	40.0	17.4	18.2	44.2	2.8
Initial intake session only ($n=79$)	18.3	19.7	32.8	45.0	2.6
Counseled ($n=97$)	10.7	25.3	29.3	45.3	2.4

Note. Source: NHS Chicago 2009 Default Counseling Survey, $n=235$

notice than individuals who did not receive counseling services (nonsignificant, $p = 0.18$). There were also no statistically significant differences in college education between those who received counseling and those who did not (nonsignificant, $p = 0.18$). Employment rates were similar across all three groups of clients. Overall, the key finding from this portion of the survey appears to be that clients who seek more intensive counseling services are more likely to be in default. Interestingly, this difference does not manifest itself in a higher likelihood of physical stress symptoms. Based on four questions about the frequency at which the respondent reported headaches, backaches, insomnia, and fatigue, a four-point stress scale was created. This four-point composite variable indicates that counseled borrowers report fewer stress indicators than noncounseled borrowers, despite their worse default status ($p = 0.03$). While counseling may not cause stress reductions, it is associated with lower stress levels in this survey.

Table 11.2 uses the four-point stress scale to categorize borrowers into quartiles based on their stress levels. Comparing the means in the table by quartile, higher stress levels are associated with a higher likelihood of having received a foreclosure notice, a slightly lower likelihood to have contact with the lender, and a lower likelihood to be employed full time. Respondents' confidence in avoiding foreclosure was statistically lower for borrowers with the highest quartile stress levels, however ($p = 0.04$). Borrowers with the highest quartile stress levels also viewed the helpfulness of counseling more negatively than moderately stressed borrowers in quartile 2, although this difference was marginally statistically significant ($p = 0.13$). These results suggest that borrowers' attitudes about counseling and their prognosis for coming out of the foreclosure process are associated with physical indicators of stress. Borrowers in foreclosure are facing severe financial distress, and this may then manifest as headaches, backaches, insomnia, and other physical impairments. This likely contributes to added challenges for lenders and counselors in reaching out to and working with borrowers.

Loan Modification Counseling

With the creation of the federal MHA program, the \$75-billion federal program designed to support nine million loan modifications, NHS altered its approach to default counseling in some ways. The MHA program does not require counseling except for borrowers with high total debt payment to income ratios (55% of income or more). However, the opt-in nature of the MHA program means that borrowers must apply to their lender for a loan modification. Navigating the application process is time consuming and often complex. Distressed borrowers have initially been slow to apply to the program (Simon, 2009). In this context, nonprofit agencies have begun to focus on encouraging borrowers with a documented hardship to apply for the MHA program. For instance, NHS of Chicago held "Fix Your Mortgage" events during the summer and fall of 2009.

Table 11.2 Client status by stress level

Stress level (1 = lowest, 4 = highest)	Received a foreclosure notice (%)	Any contact with lender (%)	Employed full-time (%)	Confidence in avoiding foreclosure in the next 6 months (1 = low, 4 = high)	Rating of counseling's helpfulness (1 = low, 4 = high)
Quartile 1	12	42	49	3.4	2.6
Quartile 2	26	66	53	3.2	2.9
Quartile 3	21	62	42	2.8	2.9
Quartile 4	28	57	40	2.7	2.4

Note. Source: NHS Chicago 2009 Default Counseling Survey, $n = 235$

Fix Your Mortgage events are advertised citywide as opportunities to receive help from volunteer real estate professionals. Clients called to register for the events and were told which documents to bring with them. The goal of these events is to screen clients for MHA eligibility and to help qualified borrowers submit applications to lenders. Servicers and lenders did not attend the events and were not contacted via telephone or internet. Instead, volunteer attorneys staffed the events and helped clients apply for a loan modification under the MHA program. Paperwork was faxed to the lender or the servicer at the end of the event. A point-of-service survey conducted at a Fix Your Mortgage event held on June 6, 2009 provides an illustration of the clients who attend these types of events. Clients were surveyed during waiting times; out of the 369 clients who attended the event, 141 completed the survey (38%).

Table 11.3 shows that about one-third (34%) of respondents to the Fix Your Mortgage survey were current on their mortgages, nearly one-half of respondents were behind on their payments, and just 18% were in foreclosure. These findings are consistent with the intent of the program, which is to assist borrowers in modifying loans before their financial problems worsen. Notably, 82% of respondents had contacted their lender prior to the event. Thus, it appears that the primary obstacle for clients is gaining access to the MHA modification program rather than basic communication with their lender. Forty-eight percent of respondents had attempted to work with their lender four or more times, and just over 56% had attempted to complete a loan modification application prior to the event. These results suggest that borrowers were frustrated by the loan modification process and that they needed technical help to complete the required paperwork. Indeed, 55% of respondents who had tried to work with their lender prior to the event rated their lender's helpfulness as "low," and 25% rated it as "fair." Only 20%

Table 11.3 Loan modification summary statistics for the fix your mortgage survey

Variable	% of respondents
Loan status (N = 140)	
Behind on payments (n = 67)	47.9%
Current (n = 48)	34.3%
Foreclosure started (n = 25)	17.9%
Contact with lender (N = 241)	
Contacted lender (n = 112)	82%
4+ contacts (n = 54)	48%
Attempted to apply for modification (n = 75)	56%
Rating of lender helpfulness if contacted (N = 115)	
Low (n = 63)	55%
Fair (n = 29)	25%
Good (n = 16)	14%
High (n = 7)	6%

Source: NHS Chicago 2009 Default Counseling Survey, $n=235$

of respondents rated their lender's helpfulness as either "good" or "high." These findings indicate that distressed borrowers may need to go beyond contacting their lender, and may instead need assistance in navigating the MHA loan modification application process.

New forms of volunteer counseling focused on a single action, such as submitting an application for a loan modification, may help borrowers pursue alternatives to foreclosure. Single-day face-to-face events allow borrowers and counselors to work together to physically organize documents and complete paperwork. These events may serve as a complement to ongoing counseling services or may simply provide an important step for encouraging borrowers to take preventive actions. In addition, the mode and format of counseling programs can be calibrated to clients' needs such that intensive work, especially completing application documents, can be completed in person. Meanwhile, general advice and the explanation of technical terms and processes may be best delivered via telephone.

Looking forward, there are several concerns worthy of discussion regarding the default counseling field. First, there is a lack of research on outcomes, particularly outcomes unrelated to loan performance. Given weak labor and housing markets, expectations for counseling's ability to reverse foreclosures are probably overly optimistic. More research is needed on when counseling is best provided and in what form, as well as on who enrolls in counseling and who fails to take up available counseling services. Forthcoming research by the U.S. Department of Housing and Urban Development as well as continued reports from the NFMC will provide further evidence of the counseling process and short-run counseling outcomes, but future longitudinal studies will be especially valuable.

Second, the counseling field has grown tremendously in response to the increase in federal subsidies available in 2008 and 2009. Although research on counseling through financial institutions and HOPE NOW provides some support for the provision of counseling by nonprofit agencies, the level of resources devoted to this field may not be sustained in the future. If funding levels are reduced, there will likely be consolidation of counseling providers, as well as many agencies exiting the field and a reduction in overall capacity. If default counseling were a temporary need only for the elevated levels of default in the post-housing crisis period, such a reduction may be viewed as reasonable. However, one lesson from this period may also be that counseling services need to be widely and regularly available for borrowers in financial distress, not just in response to swings in the business cycle.

Third, given the focus on loan-by-loan modifications, counseling may become more of a mechanism for helping borrowers understand and accurately complete documents needed to seek and maintain formal mortgage modifications. This development might necessitate greater outreach efforts for seeking borrowers who are not in contact with lenders or counselors, as well as forms of face-to-face services that include less intensive education and advising components and more thorough document review and preparation.

Fourth, as the foreclosure crisis has become more visible in the media, the industry of for-profit self-designated "counseling" or advising firms has expanded. Because this industry lacks standardized accreditation or a professional designation, it is easy for new entrants to this market to advertise services that appear similar to those provided by nonprofit agencies. Nonetheless, the objectivity of such firms may be questionable, especially due to the profit-motivated fees involved. Consumers may rightly be skeptical of such services, some of which are outright scams. Interviews with counselors suggest that some clients are now skeptical of all counseling providers and fail to distinguish for-profit and nonprofit counseling providers. To prevent consumer confusion and to standardize the industry, more standards could be adopted concerning both individual counselors and counseling agencies.

Conclusions

Although default counseling has existed since the 1960s, this field grew and changed rapidly during the late 2000s. An influx of federal subsidies to address a boom in foreclosure filings has stimulated the supply of counseling, at a time when a growing number of consumers may benefit from counseling. There are several compelling rationales for the provision of counseling. These rationales include helping consumers overcome information barriers and addressing the negative externalities linked to foreclosure. Despite the robust increases in funding for counseling, research on the impact of default counseling is relatively scarce. There remain a number of key questions about the optimal provision of counseling services. The impact of counseling must be kept in perspective, since no amount of advice can overcome a borrower's inability to earn enough income to repay a loan. Nevertheless, existing studies and data collected from counseled borrowers suggest at least modest short-run improvements in loan performance. Borrowers receiving counseling generally perceive it as helpful. If policymakers seek to support the continuation of the default counseling field, more attention might be paid to accreditation and professional standards.

As the foreclosure crisis stemming from the housing crisis of the 2000s eventually winds down, questions will inevitably arise concerning how and when to offer loans to higher risk borrowers in the future. The current context ought to serve as a poignant reminder that taking on riskier borrowers requires more attention to servicing loans and creating incentives for timely interventions that are designed to confront and overcome borrowers' biases and anxieties. For instance, counseling could be offered more proactively in a standardized way when just one payment is missed. Even more important may be proactive counseling offered to borrowers before mortgage documents are signed to ensure borrowers understand their rights and obligations. Ongoing counseling might provide advice on budgeting and dealing with income shocks or changes in home values. Such a "full-cycle" approach might help borrowers to be better matched to loan products and allow loan servicers to more rapidly develop alternatives to foreclosure. Such a system might result in an expansion of lending without the extreme losses to borrowers and lenders related to foreclosure.

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