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An Analysis of Mortgage Default Clients and Mortgage Default Counseling at the Utah State University Family Life Center

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AN ANALYSIS OF MORTGAGE DEFAULT CLIENTS AND MORTGAGE DEFAULT COUNSELING AT THE UTAH STATE UNIVERSITY FAMILY LIFE CENTER

by

Leslie E. Green

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ABSTRACT

An Analysis of Mortgage Default Clients and Mortgage Default Counseling

at the Utah State University Family Life Center

by

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The purpose of this study was to create a profile of the mortgage default clientele at the Utah State University Family Life Center, Housing and Financial Counseling (FLC HFC) and to examine how clientele were utilizing the counseling services. Demographic and mortgage variables were used to create the profile of clientele and examine the utilization of services. Specific variables key to the study included: loan type, time of delinquency when clients sought counseling, how clients were referred to the FLC HFC, and the point in counseling when an outcome was achieved (keeping the home or losing the home to foreclosure). The sample consisted of all closed mortgage default cases at the FLC HFC ($N = 213$) and covered the years between July 1999 and September 2004. Descriptive statistics were used to create a profile of clients and survival analysis was used to examine the utilization of services.

Clientele were on average 36 years old, married, had 2.3 dependents, and were Caucasian. The majority of clientele had no savings, was behind on other debt, reported a reduction in income or job loss as the cause of default, and sought counseling early on in the delinquency. Clients reaching an outcome of counseling in one to four appointments were statistically significantly different than those reaching an outcome in five or more appointments.

In the context of survival analysis, clients were divided into three groups: survival (positive outcome of counseling), foreclosure/bankruptcy (negative outcome of counseling), or lost-to-follow up. The findings indicate that clientele with government loans use the services more than clientele with conventional loans. Among the clientele who kept their home, there were no statistically significant differences by loan type. The FLC HFC can use this information to better tailor the services offered to mortgage default clientele.

(62 pages)

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CONTENTS

Page

ABSTRACT iii

ACKNOWLEDGMENTS v

LIST OF TABLES viii

LIST OF FIGURES ix

CHAPTER

I. INTRODUCTION 1

Purpose of the Study 2
Need for the Study 2
Objectives of the Study 4
Benefits 5

II. LITERATURE REVIEW 7

History 7
Borrowers Susceptible to Default 8
Sustaining Homeownership through Education and Counseling . 12
What We Know about Housing Counseling and Education 18

III. METHODS 21

Measures 21
Procedures 24

IV. RESULTS 28

Research Questions 28
Summary of Results 37

V. DISCUSSION 39

Profile of Defaulting Clientele 39
Clientele Referral Source 40
Utilization of Services 40

Limitations 42
Recommendations for Future Research 43
Recommendations and Implications 44

Page

REFERENCES 47

APPENDIX 52

LIST OF TABLES

Table		Page
1	Individual Borrower Characteristics	29
2	Borrower's Housing Situation	31
3	Referral Source by Loan Type	32
4	Utilization of Services by Loan Type	35
5	Mean and Median Number of Contacts by Loan Type	36
6	Utilization of Services by Loan Type for Clients in the Survival Group	37

LIST OF FIGURES

Figure Page

1 Reported reasons for default 30

2 Utilization of services by loan type 34

CHAPTER I

INTRODUCTION

The process of achieving and maintaining homeownership can be difficult. Since 1968 housing counseling and education have been available to aid households in the decision, path, and sustainability of homeownership (Joint Center, 2003; Quercia & Wachter, 1996). Housing counseling, when available, is commonly a requirement for low to moderate income households seeking various affordable housing programs offered through the government, lenders, or other financial institutions. The housing counseling and education component can also be a means by which affordable housing programs can meet Community Reinvestment Act requirements (Joint Center).

In general, housing counseling and education consists of pre- and post-purchase counseling and education (Mallach, 2001; Research Institute, 2000). Pre-purchase efforts prepare potential homeowners to make the decision to either pursue homeownership or take the time to more adequately prepare for homeownership. The goal of pre-purchase counseling and education has been to produce informed homeowners who know how to adequately handle the responsibilities that come with homeownership. It is believed that prepared homeowners present less risk to lenders and provide more secure and stable neighborhoods and families. Pre-purchase counseling improves loan performance (Hirad & Zorn, 2001) and credit counseling has been found to show an improvement in the financial behavior of clientele (Elliehausen, Lundquist, & Staten, 2003). Post-purchase counseling typically has two purposes, first, to help owners maintain their homes and second, to provide aid in delinquency situations (Research Institute). Often borrowers seek counseling late in their delinquency and as a consequence, reduce the possibility of retaining the home (Joint Center, 2003). Delinquency counseling can assist the owner with a debt reduction plan, exploring options to cure the delinquency, contacting and negotiating with the servicer, and if necessary, determining the best exit strategy (Research Institute; Joint Center).

Purpose of the Study

The purpose of this study is two fold. First, to create a profile of the mortgage default clients at the Utah State University Family Life Center Housing and Financial Counseling Services (hence referred to as FLC HFC). The second purpose, which has two components, is to describe the length of time delinquent borrowers remain in delinquency before they seek counseling at the FLC HFC and the length of time, or number of counseling sessions, it takes to produce an outcome of counseling. Some aspects considered in the study include: the type of loan (FHA, Conventional, etc.) held by the clients, the circumstances that caused them to default, how the clients were referred to the services, and the point at which counseling produces a positive or negative outcome for the owner.

Need for Study

Mortgage default is a serious problem in the state of Utah. In August 2005, Utah was ranked eighth in the nation for mortgage default with one foreclosure for every 805 households [Arkansas ranked first (with 1 foreclosure for every 491 households), and Tennessee second (with 1 foreclosure for every 547 households)] (RealtyTrac, 2005). With respect to HUD FHA insured loans, Utah was ranked second highest in the nation for mortgage default (2.05%) - Indiana held first place (2.13%) in 2004 and Michigan third place (1.82%) (Mitchell, 2004). In FY 2003, Utah held a mortgage default rate of 3.2% for HUD FHA insured loans (Mitchell). Default rates in Utah have decreased during 2003 and 2004, but remain high.

In Cache County, Utah where the study takes place, default notices are very high. In 2001, there were 620 reported default notices (a total of 1 in every 34 households); in 2002 the number decreased to 554 (a total of 1 in every 38 households). The total number of households in 2001 and 2002 was estimated at 21, 055. However, in 2003 the number skyrocketed to an amazing 1,182 (a total of 1 in every 23 households), and in 2004 the number dropped to 450 (a total of 1 in every 61 households). According to the Federal Financial Institutions Examination Council (FFIEC) the total number of households in 2003 and 2004 was estimated at 27, 597 (FFIEC, 2001, 2002, 2003, 2004; Cache County Recorders Office, personal communication, July 27, 2005).

There are many negative outcomes to experiencing mortgage default, including damage to one's credit record, emotional stresses, and the potential to lose the home to foreclosure (Joint Center, 2003). Households that lose their homes to foreclosure may be forced to relocate or rent and thus lose the sense of pride, stability, and belonging that accompanies homeownership (Mallach, 2001).

It is important for the housing counseling and education industry to learn what is effective for different types of borrowers to be able to produce and maintain successful homeowners. In the housing counseling and education industry, there are many concerns that remain unknown. First, the extent to which housing counseling and education affects buyers' default decisions (Mallach, 2001). Second, the point at which a defaulting buyer seeks counseling, is it at the onset of delinquency, or closer to the foreclosure process (Hirad & Zorn, 2001; Joint Center, 2003)? Third, the profile of defaulting borrowers seeking help is unknown. Fourth, how many borrowers have experienced positive outcomes to foreclosure counseling, such as keeping the home, or not damaging their credit through foreclosure or bankruptcy? Fifth, what types of loans do borrowers have who are seeking counseling (FHA, Conventional, etc.)? There is a need to understand the households who are experiencing mortgage default and how they can be effectively reached through housing counseling and education (Joint Center, 2004).

Objectives of the Study

There are two general objectives to this study, first, to understand the clientele that utilize the mortgage default counseling offered at the FLC HFC; second, to use this information to improve the quality of services provided through the FLC HFC. The questions that were considered are as follows:

1. What is the demographic and mortgage profile of clients who come to default counseling at the FLC HFC?
2. How were they referred to the FLC HFC?
3. What percentage of clients had positive outcomes after the counseling sessions? (Positive outcome is operationalized as the number of clients who did not lose their homes and whose credit was not damaged by foreclosure or bankruptcy).
4. Are there differences in the length of time clients utilize the services at the FLC HFC[1]?

[1] Clients will be divided into three groups for operationalization of variables, see page 20.

5. Are there differences in the utilization of services by type of loan?

6. Of those who had positive outcomes, do they differ in the utilization of services by loan type?

Benefits

This study will specifically benefit future clientele and improve services of the FLC HFC. As the demographic characteristics of the clientele are identified, efforts to adequately assess the needs of this population and thus provide improved services can increase. The findings will provide a way for the counselors and staff at the FLC HFC to consider possible changes that will enhance the housing counseling and education they provide. Mortgage default is a problem that is not about to disappear. Housing counseling and education can address this problem; counselors can work with clients to gain control of their financial situation and act as liaison between the client and the servicer. This research is important because there is a need to aid homeowners who default on their mortgages. As housing counseling agencies become more familiar with the population of defaulting borrowers they can more effectively tailor their services to the profile of borrowers in their respective areas. The findings of this research may also be useful to other agencies with similar programs in Utah. This study may encourage those agencies to further define the characteristics of defaulting borrowers in their respective areas and allow them to better serve their mortgage default clientele.

The next chapter presents a review of the housing counseling and education literature. Factors concerning housing counseling and education such as its history, borrowers susceptible to default, sustaining homeownership through education and counseling, and what we know about housing counseling and education are included.

CHAPTER II

LITERATURE REVIEW

This literature review explores factors relating to housing counseling and education. The factors discussed are: its history, borrowers susceptible to default, sustaining homeownership through education and counseling, and what we know about housing counseling and education.

History

The groundwork for the housing counseling industry began in the 1960s with the passage of the 1968 Housing and Urban Development Act in which the Department of Housing and Urban Development (HUD) gave permission for housing counseling to be administered to borrowers participating in the FHA section 235 loan program (Baker & Collins, 2005; Hirad & Zorn, 2001; Mallach, 2001; Quercia & Wachter, 1996; Research Institute, 2000). Section 235 provided a low interest down payment subsidy on FHA loans offered through private institutions (Colton, 2003). Permission to conduct counseling was given to public as well as private organizations. Due to defaults that occurred to participants of the section 235 program, a law suit was filed against HUD. As a result, in 1971 HUD established a process where agencies could become approved to provide housing counseling (Baker & Collins; Hirad & Zorn; Mallach; Research Institute; Quercia & Wachter).

Counseling is often required in programs offered through affordable housing and community reinvestment; as these programs grow the demand for housing counseling increases (Baker & Collins, 2005; Quercia & Wachter, 1996). Counseling has progressed since its beginning and will continue to do so, however, this growth has resulted in a lack of continuity due to the many types of counseling offered and even more so in the various ways that the counseling is delivered (Hirad & Zorn, 2001; Quercia & Wachter).

Borrowers Susceptible to Default

Empirical studies have been conducted which profile borrowers who are at risk of default. For example, the Joint Center for Housing Studies (2003) characterized households struggling to maintain ownership as having little savings, unstable or low incomes, and more susceptible to economic events that can place a threat on their ability to make mortgage payments as well as provide for everyday needs. These households also lack experience with financial institutions and can fall prey to market ventures that may inhibit their ability to meet the demands of a mortgage (Joint Center).

O'Neill, Lytton, and Parrott (1995) found that homeowners began experiencing financial difficulty after approximately five years of ownership. The majority of homeowners had dependent children and suffered from a loss of income. These households were once credit worthy to purchase a home but due to financial difficulties they became unable to maintain that record. Homeowners can experience a significant life event such as unemployment or divorce and end up on the brink of financial disaster (O'Neill et al.).

Events such as a reduction in income or a decrease in financial assets have been documented as increasing the likelihood of default (Gardner & Mills, 1989; Getter, 2003). Getter found that events such as an unexpected decrease in income or marital instability (divorce or separation) were significant in determining risk of default. Other factors such as age, race, health insurance, unemployment status, and monthly debt-to-income ratio were not as significant (Getter). Emler and Seelig (1999), in their choice-theoretical model, found that price shocks in real estate, income, and insolvency are key players in mortgage default. In addition, a relationship has been found between consumer bankruptcy and mortgage default (Elmer & Seelig). Default is also likely to occur as home values decline (Case & Shiller, 1996), as equity is diminished, and as the loan to value ratio increases (Deng, 1997). Mickey, Baxter, and Bordelon (2004) found that those who defaulted due to employment problems or a decline in the rental market which affected their rental property experienced significantly less forbearance (or leniency) than those who defaulted due to the inability to make payments or sell their property.

Many homeowners face the challenge of paying more than 50% of their gross income on housing (Joint Center, 2003). Steinbach (1995) found that households who were exceeding the traditional debt ratio limits in 1995 of 28/36 for conventional loans and 33/38 for FHA loans experienced a rate of default 60% higher than households who maintained those debt ratios. It was also found that households who did not have savings sufficient to cover at least two house payments (principle, interest, taxes, and insurance) experienced a rate of default 40% higher than those with savings enough to cover two or more payments. Today, FHA debt ratio limits are 29/41 (Sirota, 2000).

Risk of default also varies by loan type. The risk of default among conventional loans is historically low, less than one percent per year (Phillips & VanderHoff, 2004).

The risk of default among conventional loan holders is positively correlated for smaller mortgage amounts that have a high loan to value ratio, as well as for low income borrowers who have a large number of dependents (Hakim & Haddad, 1999). Concerning FHA loans, the following factors contribute to the risk of default: local unemployment rates, number of dependents, negative equity, and single males as compared to married couple borrowers (Lusk Center, 2005). Default rates are also notably higher for African Americans than for other races (Berkovec, Canner, Gabriel, & Hannan, 1996; Hirad & Zorn, 2001). Workout plans have been available through the conventional loan market since the late 1980s and the FHA loan market since 1996. Both markets have experienced over a 50% workout rate on homes that may have otherwise been lost to foreclosure (Capone, 2001).

Specifically concerning homeowners in Utah, Delgadillo (2003) examined first time home buyers in northern Utah who participated in a home buyer education class and created a financial profile to asses how vulnerable first time homebuyers were to default and foreclosure. It was found that most of the buyers (65%) were motivated to attend the class, not just for the education, but to meet qualifications for a particular loan product or to obtain grant monies for closing costs. The majority of participants, more than half, were white, married, two-income earner households with one to four dependents. Over half of the participants obtained non-conventional loans, were going into the home with only one percent equity, little or no savings, and were over extending their ratios to qualify for a home loan. These characteristics are not promising for long-term homeownership. It is suggested, among other things, that potential buyers be encouraged to purchase a home for less than they actually qualify thus allowing flexibility for future financial strain (Delgadillo). Gallagher (2004) examined active and foreclosed FHA homes in Utah between 2000-2001 to determine what factors, both borrower related and mortgage related, were associated with foreclosure. Race, front-end ratio and interest rate were found to be significant factors in determining a borrowers' likelihood of experiencing foreclosure.

Two major theories exist that attempt to assess the driving force of default and delinquency. First, the equity theory, or put option, centers on the equity of the property. This theory holds that borrowers with enough equity will never find themselves in default even if they do not have income sufficient to maintain the mortgage payment. They would sell the home to pay off the loan and redeem any remaining equity. However, if there is insufficient equity or negative equity in the property, and even if the borrower is capable of maintaining the mortgage payment, default may still occur; because it would be rational for the borrower to return the home to the lender as opposed to continuing payments. Also, when a put option occurs in which the borrower gives the lender the house (otherwise known as a deed in lieu), the lender could seek a deficiency judgment through a court of law for the difference of the sale price and the loan amount. However, this may prove to be complicated due to the costs of enforcing a deficiency judgment or due to the possibility that the borrower could declare bankruptcy (Clauretie & Sirmans, 2003).

Second, the ability to pay theory refers to a household entering mortgage default because they are unable to meet their monthly mortgage payment. This could be the result of trigger events such as an increase in family size, reduction of income or loss of employment, conflict that occurs due to divorce, or other such events that would have an effect on a household's ability to meet their monthly mortgage obligation. Once a household becomes delinquent on their mortgage, an evaluation of their household size and consistency of income is used to determine their ability or inability to cure the loan (Clauretie & Sirmans, 2003).

Studies have been conducted that support both theories of default. It has been discovered that home equity and loan to value ratios have a primary influence on the decision to default (Jackson & Kaserman, 1980; Morton, 1975; Springer & Waller, 1993; von Furstenberg, 1969). The Lusk Center (2005) also reiterates that default increases as negative equity becomes more apparent. In addition to home equity and loan to value ratios, it has also been discovered that the age of the loan (particularly those that range from three to five years) is also an important factor in determining the risk of default (von Furstenberg, 1970; von Furstenberg & Green, 1974). O'Neill et al. (1995) found that homeowners began experiencing financial difficulty after approximately five years of ownership, and Gardner and Mills (1989) report half of their sample experienced delinquency within the first four years of ownership. Foreclosures are more likely to occur in younger mortgages culminating at three years and five months and defaults are also more likely to be cured in younger loans (Phillips & Vanderhoff, 2004).

Sustaining Homeownership Through Education and Counseling

Education and Counseling

Homeownership education dissemination differs from homeownership counseling. Education efforts are typically in a classroom setting and are delivered in methods both written, verbal, and kinesthetic, and include information on a variety of topics related to the home buying process. The purpose of home buyer education is usually to help prospective buyers decide if homeownership is right for them. Counseling, on the other hand, is more direct, time consuming, and focused on the individual buyer. It is often designed to assist the buyer with further preparation for homeownership. Examples might include specific goal setting for increasing income or savings, decreasing debt, and improving credit (Hirad & Zorn, 2001; Joint Center, 2003; Mallach, 2001; Research Institute, 2000).

Pre-Purchase Education and Counseling

Given technological improvements in the mortgage market, such as automatic underwriting and online applications, the need for educated buyers is becoming essential (Joint Center, 2004). Pre-purchase education and counseling provides the potential buyer with general knowledge about the homeownership process and helps the household determine whether homeownership is right for them (Mallach, 2001; Research Institute, 2000). On average, pre-purchase efforts consist of nine hours of classroom education and approximately two and a half hours of face-to-face counseling (Research Institute). In one of the largest studies conducted concerning the effectiveness of individual pre-purchase housing counseling and education, it was found that borrowers who received one-on-one counseling experienced a 34% reduction in delinquency rates and borrowers who received classroom education experienced a 26% reduction in delinquency rates (Hirad & Zorn, 2001). The focus of housing counseling today lies in pre-purchase counseling (Joint Center; Research Institute).

Post-Purchase Education and Counseling

Post-purchase housing counseling and education programs focus on sustaining homeownership (Research Institute, 2000). There are two main types of post-purchase housing counseling and education offered. First, there are post-purchase education programs which cover topics such as home maintenance and repair, financial management, and increase buyer awareness of home repair programs and other resources to help them protect and maintain their asset (Joint Center, 2003; Research Institute). In such programs, homeowners can also gain the knowledge necessary to make good consumer choices when purchasing home products, seeking consumer credit, and creating an effective recordkeeping system. They can also be made aware of the pitfalls of predatory lending and learn how to avoid becoming a victim (Joint Center; Research Institute). It seems logical that homeowners who learn the skills commonly taught in post-purchase education would be more likely than those who did not receive any education to experience long term stability in homeownership (Mallach, 2001). Post-purchase education can act as a preventative tool; as it strives to prepare households to become successful homeowners, experience fewer financial struggles, and be more prepared to act upon the signs of financial trouble (Joint Center; Mallach).

The second type of post-purchase education and counseling is divided into two categories, default prevention counseling and education and foreclosure counseling. Default prevention counseling and education is designed to provide borrowers with the knowledge to avoid default and how to seek help if facing default (Quercia & Wachter, 1996). Owners may feel that they are reaping certain benefits by attending default prevention education and counseling. Those benefits may include the basic financial education received, the knowledge to protect their credit rating, and the awareness of available subsidies (Quercia & Wachter). Unfortunately, little empirical evidence exists as to the results of such counseling and education (Joint Center, 2003; Mallach, 2001; Quercia & Wachter).

Foreclosure counseling is designed to assist mortgage holders facing foreclosure, which begins after a mortgage is three months delinquent. Unfortunately, homeowners do not always make prompt contact with a counseling agency at the onset of delinquency (Joint Center, 2003). Counseling efforts are necessarily limited when borrowers join counseling late in delinquency. However, counseling can provide the owner with assistance in exploring their options, contacting the servicer, and determining the best exit strategy (Joint Center). The timing involved in counseling defaulted borrowers may also contribute to successfully keeping the home and curing the loan. In the National Urban League's report of Home Mortgage Assignment Counseling Training and Evaluation Program (as cited in Housing Assistance, 1997) it was found that the length of time delinquent borrowers were engaged in counseling was positively correlated with avoiding foreclosure.

The group of delinquent borrowers who need foreclosure counseling is unknown. Identifying this population is vital to any attempt to improve foreclosure counseling efforts. Of the delinquent borrowers who receive counseling, there may be some who would have otherwise surrendered the home to foreclosure and others who may have been able to satisfy the delinquency on their own (Joint Center, 2003). It is estimated that only one-third of delinquent borrowers actually seek foreclosure counseling at HUD-approved agencies (Joint Center).

Delinquent borrowers are referred to counseling through various means. The most common source of referral is through delinquency letters sent by loan servicers which provide instruction for contacting a counseling agency. This contact is required on FHA mortgages, but not necessarily on other mortgages. It is suggested that borrowers who do not respond to the contact effort made by their servicer are unlikely to contact a counseling agency until the onset of foreclosure (Joint Center, 2003). An example demonstrating the impact of referrals is the counseling that occurred in light of the defaulting participants in the FHA section 235 loan program. The U.S. Department of Housing and Urban Development, Office of Policy Development and Research (as cited in Shroder, 2000) examined the participants of the section 235 program in which approximately half of the participants were referred to counseling. Of those referred only one-quarter actually participated in counseling. More than half of those referred failed to make an appointment, the remainder of the referral sample could not be contacted. Of those who did receive counseling, there were positive and negative outcomes. Positive outcomes included coming current on the loan (41%) and experiencing fewer months in default (19%). Negative outcomes included foreclosure (14%) and more months in default (12%). Of those who were not referred for counseling, 38 % brought their loans current, 14% experienced fewer months in default, 21% foreclosed, and 9% had more months in default.

Counseling has the most potential for success in a default scenario when the buyer has previously formed a relationship with the counseling agency, preferably from pre-purchase or default prevention counseling and education efforts. In this way, the client may be more likely to seek counseling early in the default experience (Quercia &

Wachter, 1996). When an owner seeks counseling at the onset of default, their chances for success may increase as work with a lender begins early (Quercia, McCarthy, & Stegman, 1995; Quercia & Wachter). However, it is not always the case that early efforts are made to resolve the default (Quercia & Wachter).

When the decision to default is driven by trigger events (Getter, 2003; Phillips & VanderHoff, 2004; Quercia et al., 1995) such events may go beyond the issues addressed through default prevention and foreclosure counseling (Joint Center, 2003). In general, default prevention and foreclosure counseling can assist the buyer with financial management issues (savings, budgeting, and credit), maintenance of their homes, protecting their equity, negotiating with creditors, and determining workout plans when necessary. However, when trigger events occur, for example, a divorce or job loss due to local economic conditions, default and delinquency counseling efforts may be restricted (Joint Center).

The decision to default may also be motivated by foreseen benefits to the homeowner. Those benefits may include the opportunity to live in the home for free during the period of default and eliminate negative equity by eventually surrendering the home. This results in higher costs to the lender which places an increase on the cost of mortgage insurance. Lenders can limit these borrower benefits by exercising deficiency judgments (This occurs when the foreclosure sale does not profit enough to pay what is owed on the mortgage and the borrower becomes responsible) and default penalties. Using economic models, Ambrose, Buttimer, and Capone (1997) studied borrower attitudes towards default by examining these benefits and the actions lenders can take to limit these benefits. As borrowers' expectations of the time between default and foreclosure increase, the likelihood of default also increases. Also, as the borrowers' expectation of the time between default and foreclosure decrease the likelihood of deficiency judgments increases. With these expectations, borrowers' attitudes toward default can be altered by lenders reducing the time between default and foreclosure and increasing the possibility of deficiency judgments. The increase in time given to borrowers between default and foreclosure and the probability of deficiency judgments may explain the high rates of default among FHA and VA loans compared to conventional loans (Ambrose et al.).

Default counseling can aid the borrower in the following ways: the counselor can act as a third party, clarify information gaps, and provide knowledge about other assistance programs that may be of help to the owner (Joint Center, 2003). Counseling can also make the borrower aware of the costs involved with default and possible foreclosure. Those costs include: moving costs, difficulty in finding new employment, damage to credit, difficulty in obtaining new credit in the future, difficulty in purchasing a home in the future, and even psychological stresses (Gilberto & Houston, 1989; Joint Center). Perhaps most valuable, the counselor can provide budgeting and credit information that may help the owner make better consumer choices and assist them as they determine what is in their best interest financially (Joint Center).

What We Know about Housing Counseling and Education

In the past, empirical studies have been conducted to determine to what extent housing counseling and education (both pre- and post-purchase efforts) reduce the risk of default (Joint Center, 2003; Mallach, 2001; Quercia & Wachter, 1996). However, attempts to measure housing counseling and education have been difficult and the findings are limited in their generalizability (Joint Center, 2004; Quercia & Wachter; Research Institute, 2000). The differences between programs contribute to the difficulty of measuring housing counseling. Some of those differences include the preferred results of individual agencies (for example, increases in homeownership or reducing default risk), differences in counselor characteristics, content, quality, duration and depth, the availability of financial assistance, and even variation in marketing (Hirad & Zorn, 2001; Quercia & Wachter; Research Institute).

In seeking to measure the effects of counseling, previous research suggests using a controlled experiment where there exists both a treatment and control group (Quercia & Wachter, 1996; Research Institute, 2000). This would entail random selection of homeowners where one group would be designated to receive counseling and another to not receive counseling (Quercia & Wachter; Research Institute). However, conducting research among defaulting households following the procedure mentioned above may be difficult for the following reasons. First, the time it takes to conduct such research cannot be feasibly requested from providers of the counseling because many counseling agencies are short staffed and lack the resources to conduct such an evaluation. Second, it is not ethical to take a sample of delinquent borrowers and provide counseling to only half (Joint Center, 2004). It would also be difficult to administer a controlled experiment to underserved populations, such as low income and minorities, for two reasons: first, this population would most likely be eligible for affordable housing programs which typically require a housing education and counseling component. Second, if comparing the underserved population with conventional borrowers, it might be assumed that both borrowers would have similar responses in and towards default situations, when the differences between the two sample groups would indicate otherwise (Research Institute, 2000). In light of these examples of the limitations in measuring the effects of default counseling, the reality is that counseling agencies and their practitioners are not conducting mortgage default counseling evaluations because housing counseling agencies are short staffed and function on limited resources (Joint Center). Even if evaluations are not conducted, it is important that agencies at least learn who makes up their clientele. Thus, this study proposes to present a profile of delinquent borrowers who seek counseling at the FLC HFC in order to better customize the services provided. Due to the minimal research concerning the timing between initial delinquency and a final outcome of counseling and the limitations found within housing counseling research, this study will contribute to the current literature by analyzing mortgage default counseling during the delinquency period of the borrower until a final outcome is reached.

The next chapter provides a description of the population, definition of the variables used, detail for the data collection, the research questions, and the data analysis used in the study.

CHAPTER III

METHODS

The proposed study sought to improve the mortgage default counseling provided by the FLC HFC. This was accomplished by examining all inactive mortgage default files of the clientele at the FLC HFC for the time period of July 1999 to September 2004. Files for 2005 may still be involved in active counseling. This chapter provides a description of the population, definition of the variables used, data collection, the research questions, and the data analysis for the study.

Measures

The purpose of examining mortgage default counseling at the FLC HFC was to gather information to determine at which point the counseling offered produced an end result (either positive or negative) and to determine where efforts should be placed to improve the quality of services offered by the FLC HFC. Below is a description of the population, variables, data collection, research questions, and data analysis.

Population

The population for this study came from the mortgage default clientele at the FLC HFC and consisted of 213 mortgage default clientele that are no longer engaged in active counseling. Files eligible for the study included the following: households who were expecting to default, already in default, or engaged in the foreclosure or bankruptcy process. Important demographics gathered at the time of intake such as age, race, marital status, number of dependents, income, and amount in savings were examined to profile the households experiencing default in the counties (Cache, Rich, and Box Elder) served by the FLC HFC. The FLC HFC data was chosen because it is the only housing counseling agency in Northern Utah.

For analytical purposes, survival analysis (or life tables) was used. Clients were separated into three groups: survival group, foreclosure/bankruptcy group, or lost-to-follow up group. The first group, survival, refers to clients who experienced a positive resolution to their default situation. This could include a repayment plan, partial claim (a no interest loan made by HUD for the amount the borrower is delinquent, not to exceed 12 months), payment assistance, pre-foreclosure sale, special forbearance (lender stops collection of payments for a short amount of time), deed in lieu (borrower releases the deed to the lender), renting the home, refinance, working with the loan servicer in the future, or, working with an attorney. The second group, in the context of survival analysis, is commonly referred to as the death group, however, for this study the second group will be referred to as the foreclosure/bankruptcy group. Those in the foreclosure/bankruptcy group are defined as having experienced foreclosure or bankruptcy. The third group, lost-to-follow up, refers to clients who withdraw from counseling and for whom the final outcome is unknown. For the purpose of this study, the first group, survival, was noted as a positive outcome and the second group, foreclosure/bankruptcy, was noted as a negative outcome.

Variables

There were a total of 19 variables extracted from the FLC HFC mortgage default client files. Eight variables, collected upon intake, describe individual borrower characteristics. These variables could change over time but were used to create a profile of clientele upon intake. The variables included: (1) marital status, (2) age, (3) race, (4) number of dependents, (5) employment status, (6) income, (7) amount in savings, and (8) behind on other debt. Marital status was defined as married, single, divorced, separated, or widowed; age was measured in number of years. Race was divided into four categories: Caucasian, Hispanic, Asian Pacific Islander, or American Indian/Alaska Native. Number of dependents indicated the number of dependents in the household. Employment status was indicated as full-time, part-time, seasonal, self-employed, or retired. Income was recorded as indicated by the client. Income reported by the client may be either net or gross. Savings included any amount in the clients' checking and savings accounts. Behind on any other debt was defined as whether or not the client was behind on any other payments not including the house payment, this variable was coded as yes or no.

The following 11 variables were used to describe the individual borrower's housing situation. These included: (1) how many years the owner has been in the house, (2) amount of consumer debt not including house payment, (3) original mortgage amount, (4) current mortgage balance, (5) stated reason for default, (6) the month of default in which they sought counseling, (7) whether or not they have a second mortgage, (8) housing cost burden, (9) total time spent by the counselor, (10) loan type, and (11) referral to FLC HFC. How long the owner has lived in the house was recorded in number of years. The amount of consumer debt not including the house payment, original mortgage amount, and current mortgage balance was recorded in dollars. The stated reason for default consists of various trigger events as declared by the client. Getter

(2003) found that events such as an unexpected decrease in income or marital instability (divorce or separation) were significant in determining risk of default. Whether or not the client has a second mortgage was coded as yes or no. The housing cost burden was calculated by dividing the clients' reported monthly income by their reported monthly house payment and was recorded as a percentage. Time spent by the counselor was recorded in minutes. Loan type was recorded as FHA, VA, Conventional, or Utah Housing. Referrals to the FLC HFC fall into any of the following categories: servicer, friend (includes religious leader, spouse, or other friend), non-profit service, phone book or newspaper, lawyer, and court ordered.

Procedures

The mortgage default client files at the FLC HFC were used for this research project. Prior to receiving counseling, each client at the FLC HFC must sign a consent form that states their information will be held confidential and that they understand that their information may be used for research and educational purposes. A copy of the consent form is found in the Appendix.

Data Collection

This proposal meets the standards set forth by the Utah State University Institutional Review Board and poses little, if any, risk to all participants. Information extracted from the client files was in no way used to identify individual persons. Only files that are no longer actively engaged in counseling were considered. Standards set by the FLC HFC were also followed. Those standards state that all client information must be held confidential and that counselors must represent all clients without any conflict of interest (Nielsen & Hansen, 2005). The researcher who collected the data, is a counselor at the FLC HFC and is bound by these standards.

Research Questions

The questions to be considered are as follows:

1. What is the demographic and mortgage profile of clients who come to default counseling at the FLC HFC?
2. How were they referred to the FLC HFC?
3. What percentage of clients had positive outcomes after the counseling sessions? (Positive outcome is operationalized as the number of clients who did not lose their homes and whose credit was not damaged by foreclosure or bankruptcy).
4. Are there differences in the length of time the three groups of clients (survival, foreclosure/bankruptcy, and lost-to-follow up) utilize the services at the FLC HFC?
5. Are there differences in the utilization of services by type of loan?
6. Of those who had positive outcomes, do they differ in the utilization of services by loan type?

Data Analysis

The data collected from the mortgage default files at the FLC HFC were analyzed using SPSS 13.0 (SPSS, 2004). To answer research questions (1) What is the demographic and mortgage profile of clients who come to default counseling at the FLC HFC; (2) how were they referred to the FLC HFC; (3) what percentage of clients had positive outcomes after the counseling sessions? (Positive outcome is operationalized as the number of clients who did not lose their homes and whose credit was not damaged by foreclosure or bankruptcy.); and (4) are there differences in the length of time clients utilize the services at the FLC HFC? Descriptive, cross-tabs, and chi-square analysis were used. Descriptive statistics were used to create a profile of the FLC HFC mortgage default clientele as well as the typical referral source, and loan type. Client characteristics were defined through the following variables: (1) marital status, (2) age, (3) race, (4) number of dependents, (5) employment status, (6) income, (7) amount in savings, (8) behind on any other debt, (9) how many years the owner has been in the house, (10) amount of consumer debt not including house payment, (11) stated reason for default, (12) the month of default in which they sought counseling, (13) whether or not they have a second mortgage, and (14) housing cost burden.

Life Tables and Kaplan-Meier Survival Analysis procedures were used to measure research questions #5 "Are there differences in the utilization of services by type of loan?" and #6 "Of those who had positive outcomes, do they differ in the utilization of services by loan type?" Life tables (described below) were used to indicate at which point the counseling produced a positive or negative outcome for the client. That point being defined as when the client reaches a point in counseling, namely, one of three possible outcomes, survival, death, or lost-to-follow up (described in the population section).

Life Tables are common when there is a need to examine the timing between two events (in this study the default and result of counseling, positive or negative). Data used in Life Tables often contains cases in which the final result was never recorded (in this study, lost-to-follow up). Those experiencing an outcome (in this study positive, keeping the home or not damaging their credit through foreclosure or bankruptcy, or negative, surrendering the home to foreclosure or bankruptcy) are used to estimate the probability of the outcome occurring at different points in time in the default experience. Life Tables are based on the assumption that although cases may enter the study at different times, they ought to behave in a similar manner (SPSS, 2004). The Kaplan-Meier Survival Analysis procedure is similar; it is also used to analyze the timing between two events, however, the Kaplan-Meier procedure controls for cases when the second event (the outcome of counseling) is not recorded (lost-to-follow up) (Lee, 1980a, 1980b; SPSS).

CHAPTER IV

RESULTS

This chapter contains results from the data analysis. Descriptive statistics and cross tables were used to create a profile of the clientele and thus answer research questions 1, 2, and 3. This section then presents the chi-square results for research question 4. The remainder of this section outlines the results of Survival Analysis to answer research questions 5 and 6.

Research Questions

Research Question 1

What is the demographic and mortgage profile of clients who come to default counseling at the FLC HFC? Mortgage default clientele were 36 years old (median). Utah, ranking the lowest of all states, holds a median age of 28, much lower than the National median age of 36.2 years old (U.S. Bureau of the Census, 2004). The majority of the clientele, 66.1%, were married and 19% divorced. Overall, Utah reports 54.3% of adults are married and 9.7% are divorced (U.S. Bureau of the Census, 2000). The average number of dependents reported by default clientele was 2.3, the average household size for Utah is 3.13, which is higher than the average household size reported for the Nation (2.59; U.S. Bureau of the Census, 2000; see Table 1). The majority of clientele were Caucasian (88.4%) and 8.4% were Hispanic, the remaining 3.2% were in other minority groups. The Utah population contains 90.8% Caucasian, 10.6% Hispanic or Latino, and 4% other minority groups (U.S. Bureau of the Census, 2004).

Table 1

Individual Borrower Characteristics

Description	Min	Max	Mean	Median	Mode	*SD*
Age borrower	20.00	60.00	37.23	36.00	36.00	8.97
Number of dependents	0.00	7.00	2.27	2.00	2.00	1.67
Reported monthly income (gross)	$0.00	$6136.33	$1835.39	$1733.45	$0.00	$1403.17
Savings	-$200.00	$2500.00	$137.52	$0.00	$0.00	$343.93

In this population, 61% of the participants had no savings at all, 1.4% of them had a negative savings. There were 2.3% of clients that reported $50 in savings, and a slightly higher percent (3.8) reported $100 in savings. Six percent held between $700 and $2500 in savings (Table 1). The population consisted of 48.4% of clientele who were employed full-time, 3.3% part-time, 4.7% who were seasonally employed, and 3.3% who reported being self-employed. The most common reason reported for experiencing the mortgage default was a reduction in income followed by job loss (Figure 1). This factor also influenced clientele cost burden. In some cases, those with higher cost burdens had experienced a decrease in income. On average, clientele had a cost burden of 36% (Table 2). Debt ratio limits for FHA loans are 29/41 (Sirota, 2000) and are 28/36 for conventional loans (Steinbach, 1995).

Other mortgage characteristics of the default clientele who sought counseling at the FLC HFC are as follows. More than half (65.5%) of the clientele sought counseling in the first three months of default and 21.6% of the group sought counseling in the second month of default. Approximately 10 clients, or 4.7% of the cases, sought

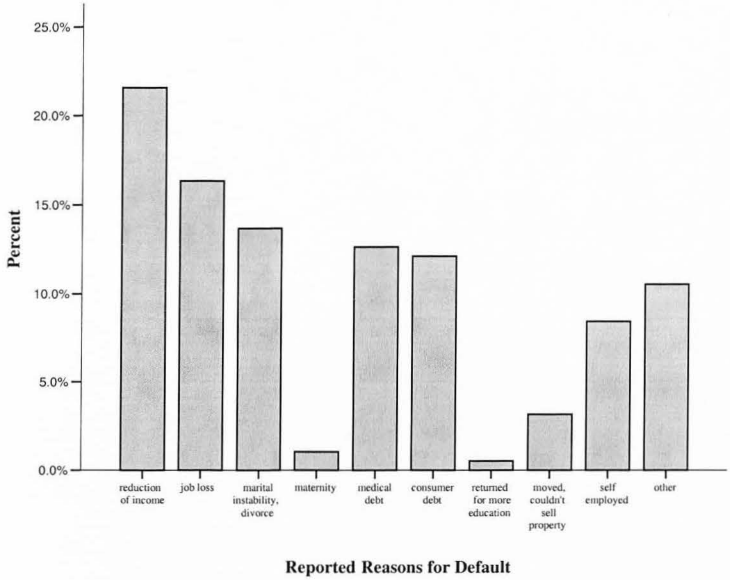

Figure 1. Reported reasons for default.

counseling in the sixth month of default (Table 2). Of the clientele who sought counseling in the first three months of default, 54.5% were able to keep their home. About one-third (34.5%), sought counseling after the third month of delinquency and fortunately half of those clients were also able to maintain homeownership. Among the defaulting borrowers, 64% had lived in their homes between one and five years, 11.6% less than one year and 23.8% had been residents for 6-23 years. Over half of the clientele

Table 2

Borrower's Housing Situation

Description	Min	Max	Mean	Median	Mode	*SD*
Years in home	0.03	23.00	4.32	3.00	3.00	4.66
Amount of debt, not including house ($)	400.00	89000.00	13454.92	8670.00	0.00	16953.02
Original mortgage amount ($)	20000.00	164500.00	90699.80	90445.50	75000.00[a]	25813.07
Balance on mortgage ($)	32000.00	138750.00	87948.05	90000.00	93000.00[a]	24829.06
House payment ($)	340.00	1456.89	776.27	750.00	750.00	219.06
Month of default sought counseling	0.00	9.00	3.24	3.00	2.00	1.98
Cost burden	0.13	1.15	0.40	0.36	0.13[a]	0.19
Time spent on client in minutes	60.00	615.00	149.82	120.00	75.00	109.68

[a]. Multiple modes exist. The smallest value is shown.

(57.3%) were behind on other debt, not including their mortgage obligation (Table 2), and about three quarters did not have a second mortgage (68.9%).

Research Question 2

How were clientele referred to the FLC HFC? The majority of clientele, 69.2%, were referred to the FLC HFC by their servicer, 13.9% were referred by a friend, and 7.7% were referred by another non profit agency. In this population, 47.9% of clients had a government insured loan and 13.6% had a conventional loan. Of the clients with government insured loans, 81% were referred by their servicer, while 63.2% of those with a conventional loan were referred by their servicer. Table 3 shows the referral source by loan type.

Research Question 3

What percentage of clients had positive outcomes after the counseling sessions? Positive outcome was operationalized as the number of clients who did not lose their homes and whose credit was not damaged by foreclosure or bankruptcy. There were 50.7% of clients who experienced a positive outcome following their counseling sessions. Those experiencing a positive outcome were named, in the context of Survival Analysis, the survival group. Of those who were in the survival group, 78.1% of them had a government insured loan (FHA, VA, or Utah Housing). The foreclosure/bankruptcy group included those who lost their homes, this group contained 57.1% with government insured loans and 42.7% with conventional loans.

Research Question 4

Are there differences in the length of time clients utilize the services at the FLC HFC among the three groups: survival, foreclosure/bankruptcy, or lost-to-follow up? To

Table 3

Referral Source by Loan Type

	Referral Source			
Loan type	Servicer	Friend	Non profit services	Phone book or newspaper
Government loan	81.0%	11.1%	3.2%	4.8%
Conventional loan	63.2%	5.3%	10.5%	10.5%

answer this question, cross tables and the chi-square statistic were used to assess statistical significance. The chi-square test indicates that there was a statistically significant difference in the length of time clients utilized the services among the three groups (chi-square = 20.06, df = 2, $p < 0.01$). The length of time clients were utilizing the FLC HFC was separated into two categories, those who attended one-to-four appointments and those who attended five or more appointments before reaching an outcome of counseling (survival, foreclosure/bankruptcy, or lost-to-follow up). Clients in the survival, foreclosure/bankruptcy, and lost-to-follow up groups, who reached an outcome of counseling in one to four appointments, were 71.3, 72.7, and 95.6% respectively. The percent of those attending five or more appointments before reaching an outcome were much lower: survival (28.7), foreclosure/bankruptcy (27.3), and lost-to-follow up (4.4). Thus the chi-square test indicates there is a statistically significant difference among the groups' utilization of the FLC HFC; however, it does not indicate which group contributed the most to the differences; for example, if the foreclosure/bankruptcy group is significantly different from the lost-to-follow up group or from the survival group.

Research Question 5

Are there differences in the utilization of services by type of loan? To answer this question, the Kaplan-Meier method of Survival Analysis was used. The Wilcoxon comparison test was used to address statistical significance. The results indicate that there are differences in the utilization of services among the groups by loan type. Borrowers holding government loans used the services the most (Figure 2). Concerning

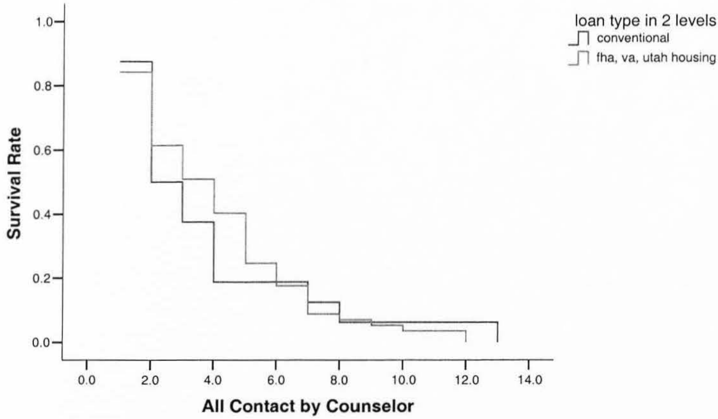

Figure 2. Utilization of services by loan type.

both loan types, the survival group is shown to use the services for longer periods of time than the lost-to-follow up group but not for the foreclosure bankruptcy group.

Concerning government loans, the survival and lost-to-follow up groups are significantly different ($p = .001$), however, no statistically significant difference was noted between the foreclosure/bankruptcy group and the survival group ($p = .564$) or between the foreclosure/bankruptcy group and the lost-to-follow up group ($p = .316$). In cases of conventional loans, the survival and lost-to-follow up groups showed a statistically significant difference ($p = .008$) and the foreclosure/bankruptcy and lost-to-follow up groups also showed a statistically significant difference (p = .038) however, the survival and foreclosure/bankruptcy groups did not show a statistically significant difference (p = .329; see Table 4).

Table 5 shows the means and medians for the utilization of services by loan type among the three groups. The medians indicate that those in the survival group who had a government loan took a longer period of time (four contacts made by the counselor as opposed to two contacts for those in the other two groups) to reach a positive outcome of counseling. Regarding conventional loans, those in the foreclosure/bankruptcy group who had a conventional loan took an even longer period of time (about six contacts) and still failed to maintain their homes. Clients in the survival and foreclosure/bankruptcy groups who sought counseling in the first three months of default were 63.8% and 50%, respectively.

Table 4

Utilization of Services by Loan Type

	Foreclosure/ bankruptcy		Survival		Lost-to-Follow up	
Loan type and outcome of counseling	Chi-sq	Sig	Chi-sq	Sig	Chi-sq	Sig
Government insured loans						
Foreclosure/bankruptcy			.334	.564	1.006	.316
Survival	.334	.564			11.359	.001*
Lost-to-Follow up	1.006	.316	11.359	.001*		
Conventional loans						
Foreclosure/bankruptcy			.951	.329	4.294	.038*
Survival	.951	.329			6.942	.008*
Lost-to-Follow up	4.294	.038*	6.942	.008*		

* $p < .05$

Table 5

Mean and Median Number of Contacts by Loan Type

Loan type and outcome of counseling	Mean		Median	
	Estimate	Std. error	Estimate	Std. error
Government insured loans				
Foreclosure/bankruptcy	3.000	.707	2.000	-
Survival	4.070	.360	4.000	.617
Lost-to-Follow up	2.400	.260	2.000	.236
Overall	3.366	.242	3.000	.213
Conventional loans				
Foreclosure/bankruptcy	6.333	2.603	6.000	3.266
Survival	3.750	.788	2.000	.500
Lost-to-Follow up	1.600	.221	1.000	-
Overall	3.276	.559	2.000	.238

Note. Dashes indicate that the standard error was not estimated.

Research Question 6

Among borrowers who had positive outcomes (those in the survival group), how do they differ in the utilization of services by loan type? Again, the Kaplan Meier method with the Wilcoxon comparison test was used to answer this question. The analysis shows that there are no statistically significant differences among those in the survival group and how long they utilize the services with regards to loan type (chi-square = 0.506, $p = 0.477$; Table 6). Both those with government and conventional loans in the survival group had similar survival functions. There were a maximum of 12 contacts for government loans that survived and 13 contacts for conventional loans that survived (Figure 2).

Table 6

Utilization of Services by Loan Type for Clients in the Survival Group

Outcome of counseling and loan type	Government insured loans		Conventional loans	
	Chi-sq	Sig	Chi-sq	Sig
Foreclosure/bankruptcy				
Government insured			1.200	.273
Conventional	1.200	.273		
Survival				
Government insured			.506	.477
Conventional	.506	.477		
Lost-to-Follow up				
Government insured			2.991	.084
Conventional	2.991	.084		

$p < .05$

Summary of Results

Slightly over half (50.7%) of defaulting homeowners who sought counseling at the FLC HFC were able to experience a positive outcome. Also, the majority (65.5%) of the clientele sought help early (0-3 months delinquent) in the default process thus further enforcing the concept that those who seek counseling later in default may reduce their chances of overcoming the default (Joint Center, 2003). Most of the clients are being referred to the FLC HFC by their servicers (69.2%), and consequently 81% of those referrals came in behalf of clients with government insured loans. There appears to be a statistically significant difference in the length of time clients utilize counseling services among the three groups of clients (survival, foreclosure/bankruptcy, and lost-to-follow up). There are significantly more clients, among the three groups of clients, utilizing the services in one-to-four appointments than in five or more appointments (chi-square = 20.06, df = 2, $p < 0.01$). There are also indications that there are differences in utilization of services by loan type, those with government loans use the services the most. There is however, no indication that the services of the FLC HFC are used differently among those who experienced a positive outcome with regards to their loan type.

CHAPTER V

DISCUSSION

This chapter begins by discussing the primary results found in this study. Limitations are then reviewed and future research is discussed. In light of the findings, suggestions are given for the FLC HFC. The objectives of this study were to first, understand the clientele utilizing the mortgage default counseling offered at the FLC HFC and second, to use this information to improve the quality of services provided through the FLC HFC.

Profile of Defaulting Clientele

One purpose of the study was to create a profile of the mortgage default clientele at the FLC HFC. In brief, the results indicate that borrowers who sought counseling were married, in their mid thirties, employed full time, and had at least two dependents. The results also indicate that the majority of the clientele reported a reduction of income or job loss as the main reasons for default and had either no savings or negative savings. Previous research has shown that households experiencing difficulty in maintaining ownership have little savings (Joint Center, 2003). This study supports that finding. With the financial demands of homeownership, having adequate savings is vital. Households experiencing difficulty in maintaining ownership have also been noted as being more susceptible to trigger events that may make it difficult to stay current on a house payment as well as meet the other financial demands of the household (Joint Center).

Previous research indicates that homeowners are likely to experience financial difficulty in the first five years of ownership (O'Neill et al., 1995; von Furstenberg, 1970; von Furstenberg & Green, 1974). That finding is also indicative of the clientele in this research. The results show that the majority of delinquent clientele, (75.2%), were homeowners of five years or less, the majority (25.8%) had owned their home for only one year.

Clientele Referral Source

Delinquent borrowers are referred to counseling through various means. The most common source of referral is through delinquency letters sent by loan servicers which provide instruction for contacting a counseling agency. While this type of contact is required on government insured mortgages, that does not mean it is also required on other mortgages (Joint Center, 2003). In this study, the majority of clientele were referred by their servicer. Defaulting borrowers who do not respond to contact made by their servicer are also unlikely to seek counseling until the foreclosure process has begun (Joint Center). Of those referred by their servicer, 34.5% sought counseling after the third month of delinquency.

Utilization of Services

Overall, half of the clientele who sought counseling (50.7%) were able to maintain their homeownership status. The utilization of services in these instances was worthwhile as they produced a positive outcome. Borrowers who do not seek help until late in delinquency reduce their chances of keeping the home (Joint Center, 2003). In this study, the majority of clientele did seek counseling at the onset of delinquency (first three months) and were able to keep their homes. Although the counseling at the FLC HFC appears to be helping clientele save their homes, it should also be considered that some of the delinquent clients may have been able to remedy their financial situation and save their homes on their own without the counseling services (Joint Center). On the other hand, other clients may have lost their homes if it had not been for the assistance given through counseling (Joint Center).

This study also found that there are statistically significant differences in the utilization of services by loan type. Practical significance can be observed from these findings. In respect to government loans, it took more contacts by the counselor to aid clients in the survival group than clients in the other two groups. Regarding conventional loans, it took more contacts by the counselor to aid clients in the foreclosure/bankruptcy group than the other two groups. Also the majority of clients in the survival and foreclosure/bankruptcy groups sought counseling in the first three months of default. Thus it could be inferred that cases who are going to fail will fail, and those who will survive will survive, regardless of the time spent in counseling, even if they seek help early in the delinquency. Counseling agencies including the FLC HFC can attempt to better allocate their time to those clients more likely to succeed. Even though it may be difficult to determine which default borrowers will succeed, this study as well as other empirical studies have found that clients who seek counseling early in the default process (Joint Center, 2003), clients who play an active role in counseling (Xiao et al., 2001; Xiao et al., 2004) and clients who are eager to cure their loan may be less likely to face foreclosure.

The results indicate that among those in the survival group there were no statistically significant differences in the utilization of services by loan type. However, practical significance can be derived from this result. Those with government loans were in fact using the services more than those with conventional loans. This is due in part because there were more clients in the survival group that had government loans than those that had conventional loans.

Limitations

This study examined the mortgage default clientele of the FLC HFC and how they utilized the counseling services in order to improve the quality of services offered. However, this study was not without limitations. First, some client files from which the information was extracted were incomplete. For example, some clients were unclear on how to report income. Some only reported their gross income where others reported their net income and some were not clear on which type they had reported. This created limitations in the interpretation of the income variable. Second, the files did not contain any information on some aspects of the client's mortgage, such as their down payment, interest rate, and whether or not they had obtained any pre-purchase education. This additional information would have been helpful in creating the profile of clients seeking counseling at the FLC HFC. Third, the study was limited to the three counties served by the FLC HFC. The study would have benefited if more housing counseling agencies across Utah could have participated. This would have allowed for a better picture of the utilization of default counseling across the state. Fourth, the study was cross sectional in nature in that default clients were only able to be examined during their counseling experience. It is unknown what financial difficulties or successes occurred after their counseling experience, which could eventually affect their ability to pay their mortgage.

Recommendations for Future Research

Mortgage default rates are notably high in the state of Utah. In August 2005, Utah was ranked eighth in the nation for mortgage defaults (RealtyTrac, 2005) and ranked second in the nation for defaults of HUD FHA insured loans (Mitchell, 2004). There is much need for future research on the borrowers as well as their ability to use such resources as the FLC HFC. Further examination of defaulting borrowers and the services that are available to them may result in a lower rate of default as well as increased awareness of housing counseling programs, on both the pre- and post- purchase levels.

Suggestions for future research include the following. First, this study could be replicated for other housing counseling agencies in Utah thus creating more generalized results. If this were to occur, it would be valuable to create a questionnaire of items valuable to the study. Those items could include, in addition to the variables used in this study, interest rate, down payment, and amount of pre- and post-purchase education, if any.

Second, if the down payment information could be obtained for borrowers in default, then an estimation of equity could be calculated and an examination of the borrowers' attachment to the property could also be taken into account. As noted in previous research, equity is a determinant in the decision to default (Clauretie & Sirmans, 2003; Lusk Center, 2005; Quercia et al., 1995; Springer & Waller 1993). Third, in an era of constraining funds for counseling agencies, figuring the cost of counseling per client would aid the FLC HFC to accomplish its mission and to efficiently allocate its resources. Also, specific information on cost would help in funding and proposal writing for the FLC HFC.

Fourth, it would be valuable to know how defaulting borrowers perceive the act of seeking help at a counseling agency; are there any stigmas associated? Do they feel that help is even possible? Fifth, it would prove useful to follow clientele beyond their utilization of counseling services; do they default again in the future, or did the counseling experience give them enough tools to avoid future delinquency? Sixth, government loan servicers have loss mitigation departments (or default departments) designed to aid delinquent borrowers. Some borrowers are able to work directly with that department to cure their loan; others used a third party, such as a counseling agency, to act in their behalf. Thus, it may also be beneficial to study delinquent borrowers' direct utilization of loss mitigation departments. And lastly, this study could be replicated on a regional or national level. In examining mortgage default clientele's utilization of services, limited concern should exist over the differences among programs for each agency.

Recommendations and Implications

In light of the findings concerning the utilization of services by the mortgage default clientele, there are many recommendations that can be made in behalf of the FLC HFC. Defaulting borrowers using the services of the FLC HFC are experiencing positive outcomes and thus maintaining their homeownership status and avoiding damage to their credit from a foreclosure or bankruptcy. However, as we note the length that some clients used the services (a maximum of 12 contacts and approximately 10 hours) it is also apparent that the time it takes to conduct default counseling can be extensive and taxing on agencies that are often short staffed.

Because some information was not available in the client files, such as interest rate, down payment, and any pre- or post- purchase education obtained, it may be valuable for the FLC HFC to revise their client housing intake forms to include this information. This added information could aid in providing better quality counseling and negotiating in the client's behalf if the counselors have all the information possible. However, one may never be able to control for clients who do not bring the needed information to their counseling session.

Knowing that most clients are receiving between one and four contacts before obtaining an outcome of counseling could help the counselors of the FLC HFC as they allocate their time and their availability to take in new clientele. Counselors may also be able to give the clients an approximated time frame of how much time they can expect to invest in counseling. The overall pacing of the services, for both counselor and client, can be enhanced. Counselor overload and burnout could also be avoided.

In the industry, there exists the idea that conventional loan servicers, as they are not required to refer defaulting clientele to a counseling agency and because these types of loans are not government insured, may be more difficult in negotiating. However, clients with conventional loans who used the services of the FLC HFC experienced success. Policy makers could require conventional servicers to refer defaulting clientele to a housing counseling agency. If conventional servicers were to refer their defaulting clientele to counseling agencies then delinquent conventional borrowers may have a better chance of avoiding foreclosure. Foreclosure is not only costly to the borrower, but to the servicer as well. Policy could also be implemented, for all loan types, that requires contact information for counseling agencies be provided along with borrower payment information, thus acting as a preventative measure.

Upon discovering the results of this study, we are lead to believe that mortgage default counseling efforts are accomplishing what they were intended to, which is to aid in the sustainability of homeowners. There are positive things happening in the housing counseling industry and success is being seen in the lives of the clients. However, there are changes that must be made to allow this industry to work more efficiently for housing counseling agencies as well as their clientele.

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APPENDIX

UtahState UNIVERSITY
Family Life Center
Housing & Financial Counseling

Consent Form

Housing and financial counseling and education at the Family Life Center is offered through the Department of Family, Consumer, and Human Development, Utah State University. The Family Life Center is operated as a community service as well as a training center for students studying Family Finance. Counseling sessions are conducted by senior level, or graduate students in training and/or Family Life Center staff. Sessions may also be observed by students in training and supervising Family Life Center staff. You may be assured of complete confidentiality. Client data may be used for research purposes, but your name will never be associated with the research.

The philosophy of the Family Life Center is educational. You will be taught the skills and strategies that have been shown to be useful in housing decisions and financial management. However, you will make the decisions regarding the adoption and implementation of the suggestions that are given.

The quality of your plan will depend upon the information you provide to the counselor. Errors in factual information may significantly change the projected outcomes discussed in the plan. Likewise, any change in your situation may significantly affect results.

Please read this form carefully then fill in the information and signature(s) as required below.

By my signature below, I agree that counseling sessions held with me may be incorporated in student training curricula, and understand that as such, I/we may also be observed by qualified students and staff. I understand that counselors and Utah State University cannot be held responsible for any damages associated with the counseling I receive. I authorize the use of my records for research purposes, providing that only summary statistics will be reported.

________________________, ________________________ ____________

Client's Signature Client's Name (Printed) Date

Additional Counseling Participants:

________________________, ________________________ ____________

Counseling Participant (Signature) Counseling Participant (Printed) Date

________________________, ________________________ ____________

Counseling Participant (Signature) Counseling Participant (Printed) Date