Staying Afloat by Branching Out

As the surge of crisis-level funding recedes from housing counseling agencies, they are looking to technology, fee-for-service arrangements, new partners, and types of counseling to keep themselves going. But can the tricky and highly detailed business of foreclosure counseling in particular survive the transition?

By Loren Berlin

The Cleveland-based nonprofit ESOP (Empowering and Strengthening Ohio's People) experienced rapid growth during the foreclosure crisis; it was flooded with public dollars to fund default counseling services to assist homeowners who were behind on payments and at risk of losing their home. At the height of the crisis, ESOP operated 10 satellite offices across Ohio with 21 counselors serving residents in all of the state's 88 counties. Formerly a small activist organization once run out of a church attic, the group had become Ohio's largest foreclosure prevention and counseling agency, with an annual budget of $1.9 million for default counseling services. Its staff conducted more than 20 percent of all counseling offered through the state's foreclosure prevention initiative, Save the Dream Ohio, a $570 million TARP-funded program.

Roslyn Quarto became ESOP's executive director in April 2013. By the end of that year the state had announced that it was ending Save the Dream Ohio more than a year earlier than originally expected. The retrenchment caught ESOP off guard. At that point, Save the Dream Ohio provided a significant portion of ESOP's budget. As of now, the Ohio legislature has declined to use state funds to continue the program or replace it with another foreclosure prevention initiative.

WE THANK CITI COMMUNITY DEVELOPMENT for their support (both financial and intellectual) and complete editorial independence as we developed the themes and content for this series.

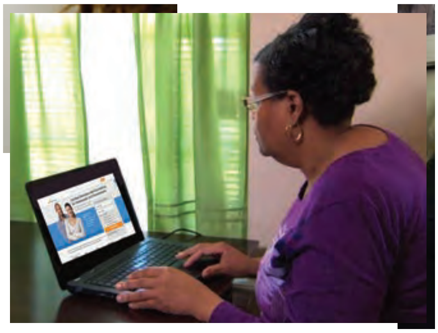
"I got here and thought we had two to three years left on the program, and then they announced they were ending it in five months. I lost $1.5 million a year in an instant," says Quarto.

Other funding sources also began to shrink, including the National Foreclosure Mitigation Counseling program (NFMC). Established by Congress in December 2007, the NFMC was designed to help struggling homeowners by significantly increasing the availability of housing counseling. In the program's inaugural year, ESOP received $1.6 million through NFMC's competitive application process, and approximately $5 million over the course of the next seven years. But as support for NFMC declined, so too did ESOP's funding. By 2015, ESOP was down to roughly $133,000 a year from the program.

Similarly, whereas ESOP once received more than $100,000 annually in Community Development Block Grant monies from Cuyahoga County to support default counseling services, that funding has since dwindled to roughly $33,000 a year. Today ESOP's total budget for default counseling services is less than $300,000.

Across the United States, hundreds of housing counseling agencies like ESOP are struggling to regroup as elected officials declare the foreclosure crisis resolved and public funds to support mortgage default counseling services evaporate. The NFMC received $180 million in Congressional appropriations in 2007; it got roughly $50 million this year. Similarly, the U.S. Department of Housing and Urban Development's budget for housing counseling services, which funds a variety of counseling beyond default services, was $47 million this year, down from $87.5 million in 2010. Additionally, many states have reduced or ended their support for default counseling, and the majority of funds from the 2012

PHOTO COURTESY OF CLARIFI


national mortgage settlement have been depleted. This loss of government support is compounded by a similar decrease in funds from national foundations and large financial institutions.

In response, many housing counseling organizations are adopting a variety of strategies to remain both relevant and solvent, including diversifying revenue streams, leveraging technology to reduce administrative costs, and expanding counseling services to address consumer financial issues beyond housing.

New Clients, New Forms of Counseling

In the face of such funding cuts, Quarto and her team undertook a strategic planning process. "First we readjusted our budget and realigned our staff to our budget," she explains. She laid off 10 housing counselors and closed 9 of ESOP's 10 satellite offices. The counseling staff shrunk from 21 to 7.

The remaining staff considered their options. "As part of any strategic planning process, a nonprofit must ask itself whether it should stay in business," says Quarto. "We aren't in business to make money. We are in business to do more of our mission. So, if there's no funding for housing counseling, do we stay in business? Or do we take the money we have in reserves, donate it to another nonprofit, and move along in our lives? We looked at it seriously. We asked ourselves if there are any other agencies doing what we do? If so, should we keep doing it? Are there other things that are a natural extension of our services that would still adhere to our mission but would also make sense for us to expand into? Are there any unmet needs in the housing counseling field that are a good fit for us?"

As they talked more about unmet needs, Quarto began thinking about a project ESOP had done a few years earlier—a couple of gatherings of senior citizens to discuss their financial needs, funded by a small grant from the Cleveland-based McGregor Foundation. Those discussions had made clear that many of Cleveland's older adults were in need of financial counseling. ESOP crosschecked foreclosures against homeowner age and found that despite being more likely to have paid off their homes, seniors still represented 43 percent of ESOP's homeowners facing foreclosure in the county.

"We thought, 'What's wrong?' They shouldn't even have a mortgage at this age," says Quarto. "It was the intersection of the foreclosure crisis and the graying of America. Seniors were the first victims of predatory lenders. They are easy prey."

ESOP observed that while there were lots of great services for Cleveland seniors, none addressed financial issues, and decided to fill that gap. ESOP staff trained on a curriculum jointly issued by the Consumer Financial Protection Bureau and the Federal Deposit Insurance Corporation entitled "Money Smart for Older Adults," which aims to teach consumers how to identify and avoid financial exploitation and abuse. The staff also trained on the AARP Foundation's "Finances 50+" curriculum, a traditional financial capability training tailored to the specific needs of older consumers. Based on those two curriculums, ESOP designed a six-session counseling program. The agency received $100,000 to support this work from the Cleveland chapter of the United Way, an organization that had never before funded ESOP's work.

Servicers make every attempt to reach our borrowers, but you still need that trusted community intermediary, and that's the counseling agency.

ESOP decided that its counseling should integrate with other financial services. As Quarto explains, "We wanted to have various points of entry into our services and also have multiple touch points throughout the year, which would enable us to build trust. Trust is very important. Seniors can be very private about their finances, and also very embarrassed."

Because effectively utilizing public benefits can be an important part of money management for lower income

(L TO R) PHOTOS COURTESY OF CLARIFI (1, 3, 5), EHOME (2), AND ESOP (4) seniors, ESOP's office became an Ohio Benefit Banks site, enabling staff to help clients identify and apply for entitlements and benefits. They became a free VITA tax site. They also started a small-dollar loan program to help seniors avoid foreclosure due to unpaid real estate taxes, a common problem among Cleveland's elderly. Third Federal Savings, a local bank, provided ESOP $200,000 to fund the loan program, which ESOP administers in partnership with a local CDFI, Faith Community United Credit Union, and with Cuyahoga County. Loan recipients are required to participate in a yearlong financial coaching program offered by ESOP.

Fee for Service

Not all agencies have been able to reposition themselves so quickly. La Casa de Don Pedro ("La Casa") is a community development nonprofit in Newark, N.J., that leverages its $15 million annual budget to provide a variety of services, including a small default counseling program. In 2010, at the height of the foreclosure crisis, La Casa received $176,000 in state and federal monies to fund the counseling program; that's down nearly 65 percent today to roughly $60,000, according to Alle Ries, who runs it.

Like most program directors in her situation, Ries has responded by reducing program staff—three full-time counselors down to one full-time and one part-time counselor. There's also a part-time program assistant who Ries says is needed because of the "onerous" reporting requirements. Additionally she is looking for ways to charge a fee for her team's counseling service, which she says is difficult because she doesn't want to take money from her clients, many of whom are low-income. Nonetheless, she's resigned herself to charging $50 for pre-purchase counseling classes, though the organization will waive the fee for clients who cannot afford it. She has also expanded the program's service area to reach new clients.

These are people who are in crisis. Many of them are coming to us because they don't have any money or because they spent what money they had on a scammer.

However, Ries remains steadfast in her determination not to charge for default counseling services. "These are people who are in crisis. Many of them are coming to us because they don't have any money or because they spent what money they had on a scammer or on someone who overpromised and under delivered," she explains.

She is more comfortable taking payments from financial institutions or other investors who own the mortgages, which is exactly what she is doing through her participation in the ReStart Home Preservation program. Through ReStart, which was established in 2013, the statewide CDFI New Jersey Community Capital (NJCC) purchases pools of delinquent and nonperforming mortgages from HUD and FHA. The program then contracts with La Casa and similar agencies in other areas of the state to try to contact the homeowners and assist them in applying for a loan modification and principal reduction from NJCC, which will write down the value of the mortgage to between 100 and 115 percent of the market value if the homeowner can afford a new loan at that level.

NJCC pays La Casa on a fee-for-service basis, and ReStart clients make up about one third of La Casa's current default clients. Ries says this income makes the difference "between us keeping our doors open for foreclosure prevention services and us having to close them."

Ocwen Financial Corporation, one of the nation's largest servicers, also pays for default counseling on a portion of the loans in its portfolio. Ocwen partners with counselors primarily in hard-hit neighborhoods where the company has significant loan concentration.

"We view housing counselors as an integral part of our business model," says Jill Showell, Ocwen's senior vice president for government and community relations. "Our philosophy in our business is to avoid foreclosure whenever possible because everyone loses in a foreclosure. . . . We believe that counseling organizations are particularly qualified to connect to, and work with, people who are struggling to make payments. Servicers make every attempt to reach our borrowers . . . but you still need that trusted community intermediary, and that's the counseling agency."

This fee-for-service model is what Marcia Griffin, founder and president of HomeFree-USA, is counting on to sustain her organization's default counseling services in the face of declining public support. "Fee-for-service is our only strategy for funding our foreclosure prevention work going forward," says Griffin, who estimates that the model currently accounts for roughly 15 percent of her organization's $3 million annual budget for counseling services.

Like Ries, Griffin wants financial institutions and investors to foot the bill, and says that HomeFree-USA's position as a large, national organization with local affiliates can help to make that happen. "The average lender doesn't want to deal with 30 or 50 different organizations. They'd rather deal with one organization, and have that one organization ensure that the reporting is correct, the training is in order, and the borrowers are being reached," she explains. "We offer scale, continuity, a way of elevating our partners, and a good marketing model that we can take to our affiliates. The big banks can't talk to 15 or 20 of our affiliates, but they can talk to us and know that they will get a standardized class, for example, from all of our affiliates."

Technology

Other agencies are diversifying revenue streams by leveraging technology, such as the New York Mortgage Coalition (NYMC), a network of 11 counseling agencies working throughout greater New York. According to NYMC executive director Ken Inadomi, funding levels for mortgage default counseling in the state of New York have remained consistent so far thanks to settlements with many of the country's largest banks negotiated by the state's attorney general. Nonetheless, Inadomi anticipates the eventual end of these monies, and is using technology to prepare for that inevitability.

This year NYMC brokered a deal to provide member agencies discounted subscriptions to eHomeAmerica, an online housing counseling platform that is currently limited to pre-purchase services, but intends to add post-purchase counseling soon. Potential homebuyers pay $99 for the pre-purchase counseling, with a portion of the fees shared between NYMC's agencies and eHomeAmerica. In the near term, the platform enables NYMC members to diversify their services by adding pre-purchase counseling on top of existing default counseling services.

In doing so, agencies are also able to increase revenues, says Inadomi. "It's a fee-for-service model that can be built on. The typical first-time homebuyers today were born in 1983, representing the leading edge of the millennial generation. They are technology-driven and don't want to come for an in-person workshop, don't want to pay for child care, parking. They want to do it at home, and they will pay $99 for that convenience."

According to Inadomi, the platform also presents an opportunity to reduce administrative costs. The agencies don't have to host as many in-person workshops, which Inadomi estimates can cost upwards of $500 per session including staff overtime, meeting space, maintenance, and refreshments. "Let's say you do that 20 times a year, that's $10,000. . . . Plus, walk-in and face-to-face services are largely driven by staff capacity. Online counseling makes you less dependent on staff headcount to meet demand."

Down the road, once the platform's post-purchase services are up and running, Inadomi believes that online counseling programs such as eHome will serve as a buffer against future fluctuations in funding for default counseling services. "There will be an ongoing counseling platform that will always be available, regardless of the increases or decreases in funding, providing a consistent revenue stream," he says, asserting that he believes there will also always be a role for face-to-face counseling.

Nicole Harmon, vice president of foreclosure mitigation at NeighborWorks, agrees that technology is becoming an increasingly valuable tool for the delivery of counseling services. "Technology is really enabling counselors to expand their reach. We see a lot of agencies incorporating Skype sessions and mobile apps into their service delivery platforms, creating new ways to touch homeowners. Counselors now know they can reach homeowners where they are, that they don't have to drive 200 miles for a training, don't have to spend that time and money."

Expansion and Partnerships

Many agencies are coping with the decline in funding for housing and foreclosure counseling by broadening counseling services to address consumer financial issues beyond housing. "Three years ago we didn't have a financial education component, just three counselors working on foreclosure prevention," says James Rudyk, executive director of Chicago's Northwest Side Housing Center. "We've added one counselor since then, and it is a financial coach working with populations like youth and women on financial well-being in general."

According to Rudyk, his agency has maintained the increased funding received during the crisis in part by such diversification of services. "Our level of funding has remained the same, but maybe we have had to change the purpose for some of it. For example, we were getting money to support foreclosure counseling. Now we have that same amount of money, but half of it is for foreclosure work and the other half for financial education."

For many practitioners, the movement by housing counseling agencies toward financial coaching makes good sense. "The best way to do loss prevention is not to do foreclosure counseling in isolation, but to address overall financial health so that the homeowner is budgeting and never hits that point," asserts NeighborWorks' Harmon.

Five years ago NeighborWorks began offering its members and other nonprofit organizations financial coaching trainings. Recently, in response to increasing demand, NeighborWorks has expanded those offerings and added a certification in financial capability.

As more housing counseling agencies expand their services, many are forging new partnerships to grow their client base. Clarifi, a Philadelphia-based counseling agency, downsized its counseling staff due to lost funding after the foreclosure crisis receded. To reduce costs and increase revenue, Clarifi recently became an affiliate of Public Health Management Corporation (PHMC), one of Philadelphia's largest health care client management programs. Clarifi and PHMC are hoping to integrate services between the organizations, expanding the referral and cross-service opportunities between their overlapping client bases.

Clarifi's interest in the relationships between physical health and financial well-being grew out of a 2009 study the agency participated in with Craig Pollack, a doctor and researcher at Johns Hopkins University, formerly of the University of Pennsylvania. Pollack's study revealed

RESOURCES

Clarifi
www.nhi.org/go/55748

eHome America
www.nhi.org/go/57172

ESOP
www.nhi.org/go/18499

Home Free USA
www.nhi.org/go/24582

HUD housing counseling page
www.nhi.org/go/67993

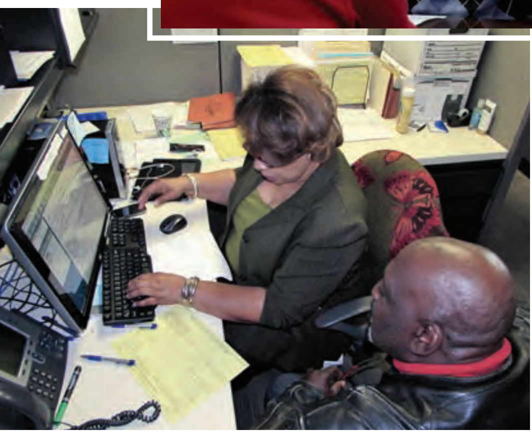
Interview with NJCC's president Wayne Meyer on the ReStart Program
www.nhi.org/go/52870

New York Mortgage Coalition
www.nhi.org/go/39931

More than one third of Clarifi's default counseling clients met the screening criteria for major depression.

that more than one-third of Clarifi's default counseling clients met the screening criteria for major depression, and many were not taking prescription medicines required to manage chronic illnesses due to the cost.

"Many clients that come to see us, whether for credit or housing counseling, continue to see the cost of health care rising, and that's having an impact as more seniors use credit cards to pay doctor or prescription bills," explains Patricia Hasson, Clarifi's executive director. In March 2015, Clarifi kicked off a pilot program in which a Clarifi financial counselor spends three days a week in a health clinic.



TOP PHOTO COURTESY OF CLARIFI, LOWER PHOTO COURTESY OF ESOP

"The clinic is a place where people go on a regular basis, so it gives us an opportunity while they are there to talk to them about their finances," says Hasson. "We can try to get them to think about the health care exchange, what does a premium look like, what is a co-pay, what benefits may be available to them from a financial perspective. From the medical perspective, if someone comes in with high blood pressure and the nurse uncovers financial strain, the nurse can tell them that there is a financial coach onsite to help them."

Hasson expects Clarifi's partnership with PHMC to reduce her organization's administrative expenses. Though Clarifi remains an independent 501(c)3 organization, it now relies on PHMC for management services, including finance, IT, and human resources. "The idea is that our expenses will go down so that we will have more money to invest in our counseling programs," explains Hasson, though she adds that the process of integrating services takes time and they have yet to reach that goal.

A Word of Caution

Though diversification of counseling services is popular among many agencies, others remain reluctant to cross-train staff. "We have counselors who specialize in homebuyer training and counseling, and others who specialize in foreclosure prevention and loan modification work. While both categories deal with a lot of the same information, the work is very different and we don't see them as interchangeable and we usually don't have staff going back and forth between the two. They are two different specializations, like going to a cardiologist when you need an orthopedist," says Arden Shank, president and CEO of Neighborhood Housing Services of South Florida (NHSSF). NHSSF's default counseling staff shrunk from a high of 20 in 2012 to 3 as Fannie Mae shuttered the Mortgage Help Center it had partnered with NHSSF to open at the same time the flow of unrestricted donations from financial institutions began drying up.

Shank acknowledges that his agency may eventually be "forced" to cross-train staff as a way to continue providing mortgage default counseling services, but worries doing so will negatively affect the quality of service. "Cross-training really stretches staff thin when they have to switch between two completely different services. Even now, foreclosure prevention work still changes very regularly and it would be hard to keep up with the policies and practices if we were doing both pre-purchase counseling and foreclosure prevention work. However, that said, we don't know which way we will go."

That uncertainty is common throughout the housing counseling field. As Roslyn Quarto, head of ESOP, said, "We are going down a new road, and if you ask me what I think our chances are of long-term survival I have to say that I don't know. They are better than a year ago, not as good as two years ago."

She pauses, then adds, "If I were a betting woman, I would bet that we will not be doing foreclosure counseling in another year, and that's a real problem. Where do people turn when there's no foreclosure counseling? Because as long as there's unemployment and underemployment we will need it."

NeighborWorks's Harmon believes the choice doesn't have to be so stark. "Default counseling doesn't have to go away," she argues. "There are service elements that can be embedded in any line of business. The question is, How can agencies strategize and integrate these services into those other lines of business?"

Fundamentally, many practitioners believe that the future of default counseling services hinges on a greater willingness by the mortgage industry to not only recognize its critical role, but also to pay for it.

"We have to have a meeting of the minds between the mortgage industry leaders and the counseling organizations," argues Griffin, "because the mortgage industry should understand that at the end of the day, we have the trust and confidence of their borrowers. We speak their language. We are the people we serve. We are the ones who have the capacity and credibility to help consumers understand all the different programs, and why they can or can't buy a house or get a loan modification. The mortgage industry benefits tremendously from our work. We counsel their customers and advance their mortgage products. Our goal is to get borrowers to pay on time, every time. It's a business. Like any other business, lenders and servicers should pay for that service."

LOREN BERLIN *is a writer and communications consultant based in Greater Chicago.*

To comment on this article, visit www.nhi.org/go/179/Berlin or send a letter to letters@nhi.org.