

Homeownership Stabilization Initiative

Final Evaluation

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Executive Summary

The Association for Neighborhood & Housing Development (ANHD) implemented the Homeownership Stabilization Initiative (HOSI) as a response to the emerging problem of predatory lending in New York's low-income and minority communities. Working closely with the New York Mortgage Coalition, the Initiative sought to mobilize Coalition partners to engage in organizing, outreach and education on the dangers of abusive lending practices in the mortgage industry.

HOSI was launched in early 2002 and continued through the middle of 2004. The goal was to help homeowners and prospective homeowners make informed choices about the financing of their homes and avoid high-cost and high-fee loans. This evaluation studies the extent to which the program achieved its goals in reaching households in target communities, gauges impacts of outreach and education on homeowner choices, assesses long-term impacts upon participating organizations, and examines the potential for replication of the initiative in other locations across the country.

Program Accomplishments

Over the two-year project period, organizations participating in HOSI:

- Contacted **69,833** individuals through a combination of outreach and organizing activities with an estimated 770,000 more households reached through media.
- Engaged in intensive one-on-one counseling to **1,403** individuals.
- Qualified **511** households for a new, affordable loan.

Participating organizations cited a lasting impact on their organizations through the incorporation of predatory lending information into homebuyer education programs and the expanded capacity and expertise of their counseling services.

Key Findings

Some of the key findings of this evaluation include:

- 1. Although the initial program emphasis was to reach homeowners vulnerable to refinance and home repair scams, first-time homebuyers responded in larger numbers than expected.**

The program was initially intended to focus on homeowners targeted for home repair and home equity scams. While the majority of clients counseled and loans made under the program were to homeowners, there was a larger than expected response from homebuyers in danger of being taken advantage of by predatory practices in the home purchase arena. The increasing cost of homeownership in the New York area has driven a sense of desperation on the part of many homebuyers. This has helped fuel predatory practices throughout the real estate industry from the common practice of over appraisal of properties, to flawed inspections and ultimately to lenders financing homes beyond the borrowers' ability to repay. These practices present a crisis of affordability and stability in neighborhoods targeted and were considered significant enough to expand the scope of this Initiative.

2. Targeting areas of high predatory lending yields results.

The Initiative targeted resources in three neighborhoods with particularly high levels of predatory lending activity. The highest percentage of clients coming in for counseling through this program came from these target neighborhoods. This is due, in part, to a higher level of incidence in these areas but also to a greater concentration of outreach and organizing activities. More people sought and obtained alternative loans and greater savings were returned to the community.

With the resources available to hire a full-time organizer, groups selected to work in target neighborhoods enlisted people to organize and share information in their networks, reaching more people than they might otherwise reach. The intensive outreach in target neighborhoods helped to raise community-wide awareness to stop predatory lending. Organizers established networks with outreach workers, social service providers, pastors, legal service providers, advocates, public officials and victims themselves to respond to the problem in the target neighborhoods.

An ANHD-commissioned study of the three target neighborhoods played a role in dedicating resources to hardest hit areas and in shaping organizing efforts. As people were shown the maps of subprime lending and foreclosure patterns, many felt the maps showed their community under siege. This helped to mobilize people to focus on the issue as a community problem and to get involved with the work against predatory lending.

3. Citywide networks of counselors, lenders and legal service providers and links to remediation are important for providing a continuum of support services for clients in need.

The network of counseling agencies and lenders in the NYMC enabled individuals reached through organizing and outreach to obtain access to alternative financing. HOSI also tapped other networks, services and resources available to provide solutions for some of the more challenging cases.

The Initiative held trainings for its nonprofit partners with representatives from different support organizations to help forge connections. Linkages to legal services and remediation loan funds proved valuable for people in danger of foreclosure. Being able to draw upon these networks prepared groups to meet the challenges faced by the most complicated cases and to guarantee program success.

I Introduction: Program Background

A. ANHD

The Association for Neighborhood & Housing Development (ANHD) is a membership organization of New York City non-profit neighborhood housing groups. ANHD was formed in 1974 and today has 93 active members throughout the five boroughs, including CDCs, community organizing groups and supportive housing providers.

ANHD's mission is to ensure decent housing and flourishing neighborhoods for the people of NYC, especially poor and working class people. ANHD members work together to develop and promote progressive housing policies and programs responsive to the needs of the City's diverse neighborhoods. The Association also provides technical assistance services and other resources to support the work of its member groups.

B. New York Mortgage Coalition

The New York Mortgage Coalition (NYMC) is a nonprofit organization supporting homebuyer education through a network of community-based organizations ("counseling partners") and financial institutions ("member banks"). The NYMC is dedicated to increasing affordable homeownership among low and moderate-income persons throughout the New York metropolitan area. The Coalition builds the capacity of counseling partners to provide high-quality homeowner education and counseling and to assist prospective homeowners to qualify for conventional mortgage loans from member banks. The Coalition offers technical assistance, training, networking opportunities and financial assistance to counseling partner organizations. Through this strategy, the Coalition facilitates access to a wide range of mortgage products for low- and moderate-income homebuyers and helps achieve community reinvestment goals. Since its inception in 1993, the Coalition has focused primarily on reaching first-time homebuyers in traditionally underserved communities.

C. Homeownership Stabilization Initiative Overview

In 2002, ANHD developed the Homeownership Stabilization Initiative (HOSI) as a response to the negative impact of predatory and abusive lending practices on New York area's moderate and lower income neighborhoods. In the 1990s, there was a surge of predatory practices in the mortgage industry across the country. These practices, often characterized by high-cost loans loaded with excessive fees, prepayment penalties, "loan flipping" or repeated refinancing of mortgages, and limited disclosure to the borrower drained vital resources from low-income communities. It is estimated that "predatory lending strips billions in wealth from low-income consumers and communities in the U.S. each year. Borrowers lose an estimated \$9.1 billion annually due to predatory mortgages."¹ In New York, an increase in predatory practices among mortgage lenders, brokers, appraisers as well as contractors in New York's low-income and minority communities led ANHD to develop this initiative to help prevent residents from becoming victims of these practices.

Because of its structure bringing community-based counseling organizations together with conventional financial institutions, ANHD selected the New York Mortgage Coalition to manage this predatory lending

prevention initiative. In support of its implementation, HOSI received funding from the Bank of New York, Citigroup Foundation, Deutsche Bank Americas Foundation, GreenPoint Foundation, F.B. Heron Foundation, HSBC Bank USA, JPMorgan Chase Foundation, M&T Charitable Foundation, Wachovia Foundation and Washington Mutual.

Under HOSI, the Coalition mobilized its network of community organizations to engage in outreach and education about the dangers of abusive lending practices and scams in the mortgage industry. The Initiative focused on developing organizing and outreach strategies to raise awareness of the problem and to prevent people from entering into high-cost and predatory loans through counseling and by offering affordable alternatives.

Specifically, HOSI sought to prevent predatory lending by:

- Organizing residents in neighborhoods targeted by predatory lenders.
- Providing homeowner education and counseling to both existing and potential homeowners.
- Providing one-on-one homeownership counseling, including credit repair services, loan application assistance and referral services.
- Facilitating access to affordable home mortgage and home improvement loans.

HOSI operated from 2002 through mid-2004. It was initially designed to reach existing homeowners generally targeted by predators for home equity and refinance scams. In response to a surge in predatory practices occurring in the area of home purchase, emphasis later expanded to also include homebuyers.

D. Scope of Evaluation

The evaluation of HOSI took place from September 2004 – December 2004. The purpose of the evaluation was to:

- Review total outreach activity by participating counseling agencies.
- Gauge impacts of the outreach and education on homeowner choices and potential prevention of households from pursuing predatory loans.
- Assess long-term impacts upon organizations delivering the outreach and education in their ability to prevent predatory lending among clients.
- Determine the potential for replication of the initiative in other locations across the country.

This evaluation studies the Initiative's accomplishments, challenges and opportunities for lessons learned from the experiences of the participating organizations. The evaluation consisted of a review of program data collected on a quarterly basis, interviews with program directors and counselors and two facilitated discussions with executive directors, homeownership program supervisors and counselors.

II. Program Strategy

In late 2001, HOSI issued a Request for Proposals (RFP) from organizations that were actively organizing in communities with a high prevalence of predatory lending. Based upon the response, the Initiative approved grants for organizing and outreach in three target neighborhoods: Bedford-Stuyvesant and Cypress Hills in Brooklyn and Jamaica in Queens. These neighborhoods were chosen due to a high concentration of both subprime lending and foreclosures in the area, anecdotal evidence from clients, and the demonstrated capacity of the community organizations to engage in predatory lending prevention. Simultaneously, HOSI dedicated a portion of the project funds to support anti-predatory lending outreach, education and counseling services among eight housing counseling agencies in the NYMC network. This dual strategy of organizing and outreach was implemented as follows:

- **Organizing and outreach in three target neighborhoods.** HOSI provided grants of \$35,000 per year for two years for organizing in target neighborhoods. The grants were intended to support a full-time organizer complemented by existing housing counselors to reach people vulnerable to predatory lenders.
- **More general outreach and expanded counseling support to clients in other communities.** HOSI offered each existing NYMC partner a \$10,000 grant each year for general outreach and education on predatory lending and to encourage people to seek counseling.

The table below identifies the organizations funded under each program component.

TABLE 1: ORGANIZATIONS FUNDED UNDER HOSI			
Organization	Community Served	Total Funding	
		Year 1	Year 2
ACORN*	Jamaica	\$35,000	\$0
NHS-J	Jamaica	\$10,000	\$45,000
PACC	Bedford-Stuyvesant	\$35,000	\$45,000
CHLDC	Cypress Hills	\$45,000	\$45,000
AAFE CDF*	Lower East Side, Queens, Asian Community	\$10,000	\$0
HAC	Westchester (<i>Yonkers, Mt. Vernon and Peekskill</i>)	\$10,000	\$10,000
LIHP	Nassau and Suffolk Counties	\$10,000	\$10,000
NHN	Brooklyn-wide (<i>focus on Sunset Park</i>)	\$10,000	\$10,000
NHS-NB*	North Bronx	\$10,000	\$10,000
SBCO	Southern Brooklyn (<i>Ditmas Park, Midwood, Coney Island</i>)	\$10,000	\$10,000

*Shaded boxes denote target neighborhoods. * first year funding only ²*

The initial benchmarks for the initiative sought to reach 1,500 homeowners (later modified to 8,000) with outreach and to qualify 300 households for alternative financing within the two-year demonstration period. These figures were far surpassed during the project period.

From 2002-2004, the groups affiliated with HOSI completed the following activities:

- Knocked on **12,661** doors in targeted neighborhoods, speaking with 2,614 residents and leaving 10,047 pieces of literature where no one was at home.

- Sent mailings to **27,338** households, the majority of whom were homeowners.
- Reached **18,129** individuals through a range of informal events including street fairs, homeowner expos, church fairs, meetings, block parties and community fairs.
- Provided presentations about predatory lending to **10,655** existing and potential homeowners.
- Provided intensive one-on-one counseling to **1,403** individuals, 57% of whom were from the targeted neighborhoods and 54% were existing homeowners.
- Financed **511** households with alternatives to predatory loan products, 85% of which were to homeowners.

A. ORGANIZING AND OUTREACH

The major thrust of the organizing activities occurred in the three target neighborhoods. An ANHD-commissioned study in October 2002 confirmed that subprime lenders held a disproportionately high concentration of refinancing loans in the three target communities compared to their boroughs and the city overall. In addition, when compared to other neighborhoods, “Bedford-Stuyvesant and Cypress Hills, Brooklyn, and Jamaica, Queens, experienced among the highest concentrations of foreclosures in Brooklyn and Queens”³ in the period studied.

While the concentration of organizing and outreach occurred in the target neighborhoods, the nonprofit partners used HOSI grants to engage in outreach activities in other communities as well. Collectively, organizations took a variety of approaches to get the word out about predatory lending and the availability of alternative products and services.

Methods

Overall, the organizing and outreach methods used generally fell into the following categories:

1. Organizing Residents to Raise Awareness.

Groups in the target neighborhoods focused on organizing of community residents and leaders to spread the word about the dangers of predatory lending. The three organizations found this strategy to be the most effective means of raising awareness of the problem of predatory lending in the neighborhood. Organizing activities included train-the-trainer sessions, picketing local predatory brokers and organizing victims to seek damages for fraud against predators.

2. Door-to-Door Outreach.

Door-to-door activities consisted of contacting neighborhood residents at home either by blanketing whole blocks or selecting residents based upon foreclosure lists, age or condition of housing stock and known subprime lending activity. The 12,661 doors knocked upon were located exclusively in target communities. The blanket door-knocking activity was initially seen as effective in reaching large numbers in target blocks within the neighborhoods but produced few referrals or responses (calls for counseling). More targeted door knocking to people directly affected and repeated contacts to borrowers in foreclosure yielded more referrals to counseling.

3. Mailings.

Mailings were directed primarily to current and former clients of each organization; to certain zip codes; and to partner organizations’ distribution lists. HOSI mailings reached 27,388 households. Mailings were a preferred activity for the housing counseling organizations outside the target neighborhoods because it was seen as cost effective. Nevertheless, more than 50% of the mailings were sent to households within the target communities.

NHSJ organized the Southeast Queens Predatory Lending Task Force. The Task Force convened community meetings and train-the-trainer sessions. The first meeting attracted 65 community leaders, elected officials and representatives, legal service providers, pastors and neighborhood block associations. Participants, in turn, educated their constituencies. The task force still meets to discuss ongoing abuse and plan strategy.

A PACC organizer used her experience as a predatory lending victim to reach out to people whose homes were in foreclosure. For those not in foreclosure, PACC saturated the senior centers in the community with repeated presentations and turned to churches to encourage pastors to spread the word.

4. Seminars/Presentations.

Every group reported holding seminars on predatory lending with first-time homebuyers and existing homeowners. The seminars were either delivered as part of a homebuyer education course or were stand-alone sessions held in conjunction with local community organizations, churches, elected officials or senior centers. There were 10,655 attendees to these education sessions, more than 52% of which were in target neighborhoods.

5. Events.

These activities consist of street fairs, community events, expositions and symposiums. In all, the groups reported participation in roughly 63 community events. While 52% of the events were held in target neighborhoods, this tactic reached only 21% of the total number of people reached through this strategy.

6. Media.

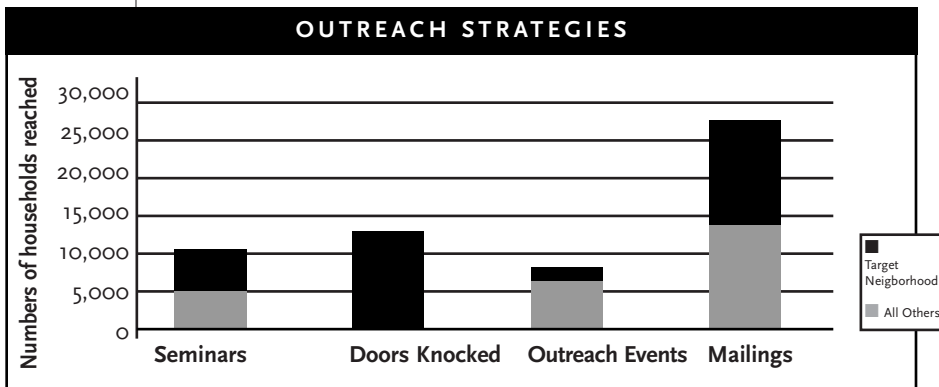
The use of media includes advertisements, infomercials, radio programs, journalist coverage at events, and articles in community papers. Overall, the groups reported more than 50 news events, promotions, articles and interviews to both citywide and community or language-based media outlets. Some used their own newsletters and local community newspapers to spread the word about the dangers of predatory lending. Others used radio programs to discuss predatory lending.

The graph below shows a breakdown of outreach activity within target neighborhoods and in other communities served by participating counseling agencies. While it does not include all organizing activity (e.g. number of task force or organizing group meetings) or those reached by the media, it does indicate the methods used by groups both within and outside the target neighborhoods.

Utilizing a combination of strategies enabled groups to shift tactics according to need and to continue to reach new populations. When certain avenues were tapped, the organizing groups would retool strategies. Even among groups receiving the smaller grants, multiple strategies yielded greater results. Long Island Housing Partnership (LIHP) used the HOSI resources primarily to send personal letters to roughly 1,200 households, about one-half of which to zip codes with a high incidence of predatory lending activity. However, the media also played a role in outreach by writing stories on problems in the area and alerting

people to LIHP's work. A *Newsday* article early on in the project generated a large response; raising awareness of the problem and directing people to counseling. AAFE frequently invited journalists from various Chinese-language newspapers to attend their seminars. A seminar may reach 100 people but the article could potentially reach 400,000. Collectively, more than three-quarter of a million people were believed to be reached through media strategies.

Cypress Hills LDC formed "People Before Profit," a group of 20 former victims of predatory lending in the neighborhood. The group targeted specific problematic brokers and lenders, LendAmerica and United Homes, using a combination of tactics including picketing their offices, suing for damages, leafleting, and writing letters to regulators and elected officials. People Before Profit won damages against the predatory lenders. The organizing and picketing against these lenders helped to raise attention about their activities. PACC engaged in joint targeting of United Homes with Cypress Hills LDC, since this company was active in both communities.



Message

The message shifted depending upon the outreach strategy used and the audience targeted. A victim-villain dynamic attracted the attention of the media and in fact many journalists seek specific stories of individuals caught in predatory situations. While this message helps raise general awareness of the problem it may not always bring people into counseling. AAFE, who targeted their outreach primarily to Chinese-speaking populations, tried to stay away from using language of victims because they believed people in their community would not respond due to embarrassment or shame in feeling “victimized.”

Some messages found to be effective included:

- **Predatory lending is a community problem.** Treating it as a community problem helps remove the individual stigma of victimization. NHSJ found this effective in uniting the community to fight the problem and motivated many who were not directly affected to get involved and share information within their networks of friends and neighbors.
- **Including official sources in materials may foster greater trust.** Neighbors Helping Neighbors (NHN) found that homeowners are flooded with information; it becomes difficult to distinguish their message. A Citywide Foreclosure Prevention Task Force brochure was helpful for the information and the weight that it carried, more than a single organization’s flyer might. Others relied on materials from the New York City’s Department of Consumer Affairs, the New York State Banking Department, Fannie Mae, Freddie Mac, and NYMC to add legitimacy to the message.
- **Lower rates and better mortgage terms available with trustworthy advice.** Housing Action Council (HAC) promoted the state and local programs that offered home improvement assistance grants as a means for reaching homeowners that may be vulnerable to taking a predatory loan.
- **Using language that people are familiar with.** NHSJ reported that community residents may not understand predatory lending but familiar terms and images like loan sharks or mortgage scams makes it easier to get the message across.

B. EDUCATION AND COUNSELING

Generating awareness of the problem is the first step in finding a solution. Homeownership education and counseling are the critical next steps for a predatory lending prevention program because many responding to outreach have complicated or challenging financial situations that require experienced and capable counseling assistance. Through HOSI, counseling partners built their capacity to provide education and in-depth counseling for people responding to outreach. Counselors worked with clients to identify their needs and their current financial situation, overcome obstacles faced in seeking conventional financing and assist them to qualify for conventional loan products offered through NYMC banks and corresponding loan programs.

Methods

The organizations used the following strategies for education and counseling:

1. Seminars.

Seminars were either stand-alone presentations or were incorporated into a larger homeownership curriculum. Roughly 49% of the seminars held on predatory lending were incorporated into first-time homebuyer classes. The classes reached 5,248 people. Organizations differed on how they incorporated predatory lending education into their classes. Some included lessons throughout the class series while others concentrated a specific class on the topic. Specific classes on predatory lending either at the agency or in other community locations constituted 51% of the seminars reaching 5,407 people.

TABLE 1: HOSI CLIENTS COUNSELED BY PARTNER ORGANIZATIONS

Agency	Clients Counseled	Percentage of Total
NHS Jamaica	340	57%
CHLDC	271	
PACC	190	
LIHP	147	43%
SBCO	146	
NHN	145	
HAC	80	
AAFE CDF	69	
NHS North Bronx	15	
Total	1,403	100%

Italics denote organizations that participated for 1st year only. Shaded boxes denote target neighborhoods.

2. One-on-one counseling.

Counseling sessions cover a range of topics from purchase, refinancing, home improvement to debt counseling, credit repair and foreclosure prevention. The goal of the counseling is to help the client understand their financial situation and how to improve it; it also seeks to inform clients on the mortgage process and how to make the right decisions in applying for a loan. The counselors examine with the client, his/her financial situation and

financing needs to identify the most appropriate intervention. Existing homeowners were helped to understand the terms and costs of their current mortgage and alternatives available. Counseling sessions varied in length and tenure ranging from a few hours in a single session to hundreds of hours over months or even years. People reached through HOSI received in-depth counseling, assistance with alternative loan products and referrals for legal services as necessary. HOSI counseling partners provided in-depth counseling to 1,403 clients during the period, 54% were homeowners while 46% were renters desiring to become first-time homebuyers.

Effective education and messages

Some of the more effective messages were:

- **Beware of one-stop shops.** This is an area where some of the greatest abuses occur particularly with first-time homebuyers. The borrower must build his/her own team of appraisers, attorneys, inspectors, and lenders.
- **Don't just look for rates.** In this low-interest rate environment, many get fixated on interest rates but fail to discern unnecessary or excessive fees until it is too late. Often these fees are increased or first disclosed at closings when the borrower feels pressure to proceed.
- **Focus on outcomes of unaffordable loans.** Providing examples of those in predatory loan situations helps to drive home the severe consequences of these loans. The more that counselors work on challenging cases, the more they are able to use those as examples in their work.

- **Understand financial rights and responsibilities.** By reviewing the basics of what to look for in each document with a client and teaching them how to evaluate the best deal helps demystify the process. This empowerment aspect of the counseling enables people to take their time, make the right decisions and understand what they are committing to before signing.
- **Do your own research.** Often people receive information from others who (knowingly or not) mislead them into a predatory loan. A prevalent practice of predatory lenders has been to enlist trusted people in the community, such as prominent church members, to recruit borrowers. NHSJ and CHLDC workshops stress “don't let anyone hook you up.” Even if the recommendation comes from a friend, don't just take the first option; investigate it on your own.

One-Stop Shops bring together realtors, mortgage brokers, appraisers, property inspectors and attorneys under one roof. This effectively prevents a buyer from obtaining independent information on the property.

A client with NHSJ was determined to forge ahead on a home she could not afford and left counseling. After some time the woman called to report that she took the counselor's advice to seek an independent appraisal and inspection. She discovered severe flaws in the foundation and that the house was overvalued. She withdrew her offer acknowledging to the counselor the importance of independent research.

C. LINKING TO ALTERNATIVE LOANS

The counseling also helps to link clients to more affordable, conventional loan products. Counseling partners are able to inform clients of a range of alternatives loans from member banks and through state and local loan programs including: home purchase, refinancing, home equity loans for repair and rehabilitation, gap financing and reverse mortgages, downpayment and closing cost grants, subsidies for home improvements, low-cost energy-saving loan products and foreclosure remediation loans for seniors.

Breakdown of Loans

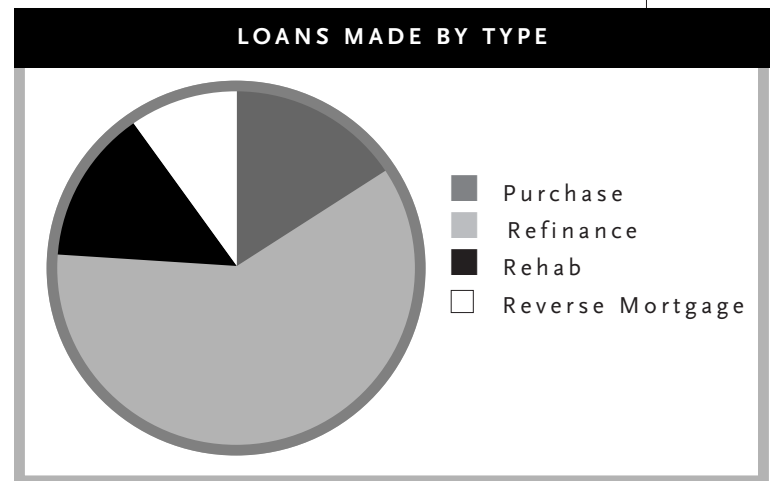
As the graph on the right shows, the majority of the 511 loans were categorized as refinancing (60%) of prior mortgage loans. These included those loans that were refinanced from high-cost to conventional, affordable loans; loans that averted clients from predatory loans, and loans taken by clients living in one of the three target neighborhoods.

Home purchase loans accounted for 16% of HOSI-eligible loans. These were primarily clients from target neighborhoods vulnerable to taking predatory loans. Home repair, some for emergency situations, accounted for 14% of the loans originated under this program; some of these loans were facilitated by City, County and State grant funding. These programs had been put in place to address the schemes used by contractors and unscrupulous lenders preying upon homeowners (often elderly) with considerable rehabilitation needs but on limited or fixed income. The median loan size for existing homeowners was \$150,000. Loans ranged from less than \$1,000 to \$378,000, with 36 of the 437 loans amounting to less than \$5,000 (mostly for home repair.) The median loan size for purchase of homes by first-time homebuyers in the target neighborhoods was \$214,539 with loans ranging from \$48,000 to \$565,000.

Criteria for HOSI Eligibility

Determining how to qualify clients under the HOSI program presented an initial challenge. The baseline capacity assessment reported counseling organizations struggling to define predatory lending prevention. The Initiative developed the following criteria for clients that qualified under this program:

- Client has a subprime loan.
- Client is receiving aggressive solicitations from subprime lenders or brokers.
- Client has credit and/or income problems that would prevent him/her from qualifying for conventional mortgage loans.
- Client lives in a target neighborhood or shares demographic characteristics with target neighborhoods.



III. Overall Program Benefits and Impacts

Measuring the impact of this type of outreach and education effort is challenging. HOSI invested a total of \$370,000 in its non-profit partners to carry out predatory lending prevention; 72% of these funds went directly to the three target neighborhoods with the balance spread to five other organizations serving communities throughout the metropolitan area.

ANHD will conduct a follow-up study of lending patterns in the target neighborhoods within one year of the program completion to gauge any changes in lending patterns occurring during the period. However, the ability to influence larger market trends in these neighborhoods is likely beyond the scope of this program. Despite the investment in organizing in the target neighborhoods, during the same period millions of dollars have been spent in the same market by brokers and lenders.

This evaluation focuses on measures of success that serve as proxies for determining the impact of the organizing, outreach and education activities funded by HOSI.

A. BENEFITS TO LOCAL RESIDENTS

In a recent facilitated discussion, homeownership program directors suggested the following as appropriate measures for success for the organizing, outreach and education activities cited above:

- Number of people with high-cost loans able to refinance to lower-cost loans.
- Number of conventional loans obtained by homeowners and homebuyers in target communities.
- Amount of money saved by families by obtaining lower cost loans.
- Amount of money in damages returned to families resulting from organizing and suing for damages.
- Number of predators forced to close as a result of organizing work.

The facilitated discussion also raised other measures that may not on the surface appear to constitute success but actually represent an important impact of counseling on people's lives and decisions:

- **Number of people not purchasing a home.** Not everyone is ready to own a home nor will it always make economic sense to do so. In a high-cost housing market like New York, it may not make economic sense for someone to give up a rent stabilized or subsidized apartment to pursue a dream of homeownership that may prove to be unaffordable. This is difficult to measure because it requires considerable tracking of clients after leaving counseling. However, counselors felt these cases can be among the most rewarding.
- **Number of homeowners who sell their homes.** Similarly, people who are facing foreclosure and do not have the financial means to maintain the home may be best served by selling the home themselves in an increasing housing market and being able to take some of the equity from the home before falling into foreclosure and losing everything.

TABLE 2: MEASURES OF SUCCESS

Performance Measures	Number/\$ Amount
Number of clients receiving intensive counseling	1,403
Number of clients receiving conventional loans	511
Number of conventional loans to clients in HOSI target communities	244
Number of conventional loans to people being refinanced from a subprime loan	82
Number of conventional loans made to people with significant credit and income problems as a result of counseling	83
Total value of loans made during the period to HOSI clients	\$77.95 million
Estimated savings to families obtaining loans through HOSI*	Between \$2 million - \$4 million
Total amount of damages awarded to individuals and families suing predatory lenders for fraud	More than \$2 million

**This is a rough estimate based upon an assumption of a 2.5% - 5% savings on interest rate.*

B. CAPACITY BUILDING OF COUNSELING PARTNERS: LESSONS LEARNED

In addition to the quantitative accomplishments, organizations reported lasting impacts on their homeowner education design and content. The most significant impact was the permanent incorporation of predatory lending education into first-time homebuyer education programs. However, there were also specific lessons learned about how HOSI helped build capacity and expertise for the housing counseling groups and for the New York Mortgage Coalition itself.

Organizing and Outreach

1. Targeting organizing efforts in neighborhoods with high levels of predatory lending yielded results on multiple levels.

The highest percentage of clients coming in for counseling through this program came from target neighborhoods. This is due, in part, to a higher level of incidence in these areas but also to a greater concentration of outreach and organizing activities. With the resources available to hire a full-time organizer, these groups enlisted people in the community to share information in their networks and reach more people than they could otherwise reach. More people sought and obtained alternative loans and greater savings was returned to the community in these neighborhoods. Moreover, there was a greater sense of empowerment among people who previously felt “victimized” or who felt their community was under attack. Organizing around specific problem brokers raised awareness of their practices, enabled people to fight back and actually win damages for the abuses inflicted. PACC was able to pressure one local brokerage company to close up shop. Cypress Hills residents won victories against predators in their neighborhood, forcing them to pay damages to victims for fraud.

2. Data generated on subprime lending and foreclosures helped convey the message of a community-wide rather than an individual problem.

Early on in the program, ANHD commissioned a study with detailed maps that clearly showed the three target neighborhoods having far greater concentrations of subprime lending and foreclosure actions than their boroughs and the city as a whole. These maps revealed the strong correlation between race and subprime lending, which was even greater than that of income and subprime lending. Southeast Queens, a moderate-income minority community, had a preponderance of subprime lending. This helped drive the point home in presentations and organizing meetings that NHSJ held where people responded to a sense of urgency that their community was under siege.

3. During the period, more cases of predatory lenders targeting first-time homebuyers arose than was expected.

HOSI was initially designed to prevent existing homeowners from falling prey to home equity or refinance scams. However, counseling partners reported a substantial number of homebuyers solicited by high-cost lenders or channeled toward predatory outlets during the homebuying process. Sarah Ludwig, executive director of the Neighborhood Economic Development Advocacy Project, (NEDAP) reports that recent trends show an increasing number of the one-stop shops (realtors, mortgage brokers, appraisers, property inspectors and attorneys under one roof) cropping up in low-income and minority neighborhoods and targeting homebuyers. CHLDC, PACC and NHSJ found systematic over-appraising of properties in target neighborhoods prompting the inclusion of larger numbers of homebuyers into this program.

In scams targeted to homebuyers, the borrowers obtain a home mortgage that exceeds their ability to repay. Within a short period, they fall behind on payments and eventually may lose the home. With rising housing prices, these properties are re-sold at greater profit. This practice, known as “property flipping,” constitutes a serious crisis in HOSI target neighborhoods and has helped to drive the decline in affordable housing available in these communities.

Due to New York’s high-cost housing market, clients have a sense of desperation and are likely to work with the one who tells them what they want to hear: a broker saying they can buy a house and qualify for a mortgage that is exponentially greater than what a counselor recommends using standard affordability analysis. In the words of one counselor, “there are a lot of people who are desperate out there and are ripe for the picking.” In this environment, the inclusion of the predatory lending in first time homebuyer classes and community presentations is equally important to reach people first entering the process. While participants may not retain all the information provided during the classes or presentations, if sufficient reason for doubt can be planted, it may bring them back for counseling before taking on a loan they cannot afford.

Education and Counseling

1. Clients responding to outreach tended to come from extreme ends of the spectrum, either homebuyers beginning their search or those facing immediate crisis of delinquency and/or foreclosure.

The project was intended to reach people prior to taking a predatory loan. However, the outreach tended to attract either information-seekers or those already in crisis. The counseling groups had extensive experience with first-time homebuyers and found it relatively easy to channel information seekers into existing programs. The clients in crisis frequently had complex financial situations with high levels of debt and in some cases were in danger of losing their home. These clients were less likely to be able to qualify for conventional credit due to the severity of their situation and they frequently needed legal support.

Some agencies, such as NHN and PACC, were already trained in foreclosure prevention. Others agencies found they had to build greater capacity in their counseling services. This was best achieved by on-the-job training and working under the tutelage of more experienced counselors. Networking and training among counseling groups was critical to the early capacity building efforts. Within its network of nonprofit partners, the NYMC has amassed considerable skill and experience. The training sessions and networking opportunities provided the venue to train, share new challenges, identify appropriate legal resources for clients and build skills among the partners.

2. One-on-one sessions have the potential for greatest impact because it enables counselors to work through specific issues with each client.

The counseling sessions offer the opportunity to delve in-depth into the financial situation of each client and to jointly work through a personal financial plan, something many have never done before. Several counseling partners found that the one-on-one counseling format is where you get results. Sitting with the person and going through their particular finances shows them how they can save money, how to get a better deal and ultimately what makes the most sense for them. The classes are a valuable way to provide an overview or context to a larger number of people but the counseling sessions were believed to have the deepest impact on client decision-making.

3. Links to remediation are essential when engaging in outreach and education to populations targeted by predatory lenders.

For homeowners with existing predatory loans, the nature of their high-cost mortgage may create spillover effects into other parts of their financial life. These clients, if faced with foreclosure, frequently have complicated credit and financial situations. Counseling is critical but may not be adequate to address the problem. For the counselors, strong networks to legal service agencies and access to some foreclosure remediation products were essential to a successful anti-predatory lending program. Training sessions that linked counselors with legal service providers and remediation loan program options were considered essential to the program's success.

Access to Loans

Overall, counselors expressed satisfaction with the range of bank mortgage products and supplemental loans or grant programs they had available.

1. Despite extensive counseling and availability of alternative loan products, predatory situations cannot always be averted.

Counseling is often confronting a cultural push toward consumption and the dream of homeownership. The push toward consumption has resulted in record debt levels for households nationally. Similarly, homeownership may not be the right choice for everyone, particularly in a high-cost housing market. Yet, many feel that they are missing out on the “American Dream” if they do not become homeowners.

Taking advantage of the escalating housing market, predatory lenders frequently push people into mortgages beyond the borrower's ability to pay. One-on-one counseling allows a thorough review of the loan, finance costs and the borrower's financial capacity to pay. Confronted with all the information a counselor offers, the borrower may still choose to proceed with an unaffordable loan. One LIHP client earned \$26,000 a year but had been pre-qualified for a loan in excess of \$300,000. Despite the counselor's demonstration that the monthly payments were more than what she could handle on her salary, the client

chose to proceed with the purchase of that home. The solution to preventing these predatory lending situations is not just raising awareness but changing people's mindset.

Conventional products have reached more deeply into the market than ever before, but they require income verification and clients are not approved for loans beyond their capacity to repay. The counselors must persuade people to look at their overall financial picture to determine whether they are overreaching on the affordability of these loans. As one counselor put it, "we're teaching people that they need to do some work to get to that mortgage and achieve that dream of homeownership, the predatory lenders are saying just sign and you can get the house, regardless of whether or not you can afford it." The lack of affordability in the market combined with a strong desire to be a homeowner drives borrowers to proceed despite counseling to the contrary. It is not simply a question of counseling and offering alternative products; greater controls or protections may also be needed to ensure that borrowers are not set-up for failure.

2. Conventional loan products may need to be supplemented with grants or more flexible financing to compete with predatory lenders.

Remediation loan programs through community lenders offered much-needed alternatives to people facing foreclosure. Several of the counseling partners also had access to grants and/or flexible or gap financing that might attract a borrower away from a predatory lender. HAC in Westchester had grant funding from New York State for home rehabilitation targeted to the elderly, enabling homeowners to supplement rehabilitation loans and offered oversight of the contractors. Other partners offered matched savings through the First Home Clubs at member banks and/or downpayment assistance grants from New York City of up to \$10,000. These funds help increase financing available to homebuyers and homeowners, and to compete with the predators. As housing prices continue to rise throughout the region, these resources will continue to be critical to getting people into and remaining in their homes without stretching beyond their means.⁴

3. Good relationships with counterparts at the member banks are important for moving loans forward.

Many counseling partners stressed the importance of building and maintaining good relationships with lenders at the member banks and credited the Coalition for providing a forum for training, networking and communication. This is particularly useful for clients that do not fit neatly into existing loan products. It may take considerable work between the counselor and the lender to address outstanding questions, issues with a person's finances or input on the risk of the loan. For borrowers with less than clear-cut financial situations, the give and take between the counselor and loan officer may be what makes the deal happen. Trust in both the intention of the bank to work with the borrower and in the capacity of the counselor is the foundation of this partnership.

IV. Implications for Replication

One of the goals of this evaluation was to determine both the potential for replication of HOSI and the implications for how to replicate this project effectively. Some lessons for replication include:

- 1. Invest in market research to determine where to focus the campaign.** The ANHD-commissioned study mapped lending activity in the three target neighborhoods. The neighborhoods had initially been selected in part due to the need presented by the partner organizations. These organizations had considerable local evidence and knowledge of the problems existing in the neighborhoods. The mapping helped to confirm the selection of neighborhoods as consistent with the need. For a replicating program, the market research and mapping may assist in the *selection* of target neighborhoods and in the program design itself. HOSI partners found the maps and corresponding study also aided extensively in actual organizing efforts. They helped to mobilize community members and leaders to focus on the issue and treat it as a community-wide problem rather than an individual's personal problem. Maps should report information on subprime lending and foreclosures in comparison to key demographic characteristics. The data found a stronger connection between subprime lending/foreclosures and race than with income. Other patterns to track may be in the FHA loans where abuses have been reported as well. Moreover, detail on lending patterns of individual brokers or lenders that exhibit a pattern of predatory practices can help provide an organized response to these specific lenders' activities.
- 2. The cyclical nature of the housing market helps to predict the type of predatory lending problems that organizers are likely to face and responses that may work.** In recent years, the New York metropolitan area has faced an overheated housing market with skyrocketing prices. In this environment, certain predatory practices flourish, such as lending in excess of a borrower's ability to repay, and subsequently foreclosing on the property. The spiraling housing costs in the overall market help to ensure that abusive lenders realize a profit on the resale of foreclosed properties. While forecasting real estate trends is extremely difficult, tracking these shifts can help organizations to plan where and how to focus limited resources.
- 3. Develop or link to networks of counseling agencies, lenders and legal service providers ensure that people reached across the spectrum can be adequately assisted.** The NYMC naturally lent itself to just such a project because it brings together leading New York banks with leading counseling agencies. The natural pipeline of linking people to affordable loans through counseling was well established. Under HOSI, the Coalition also tapped other networks and support agencies in the metropolitan area, which proved vital for sharing information and addressing some of the more challenging cases. The NYMC held trainings for HOSI participants to help forge linkages with a range of remediation efforts (such as legal services and remediation loan funds) for worst-case scenarios. Counseling groups that drew upon these networks felt more prepared to meet the challenges faced by complicated cases and were most positive about the program's success. In cases of replication, a network or forum for lenders and counselors to meet regularly is essential to the smooth functioning of the program.
- 4. Be clear up front about definitions for predatory lending prevention and program measures.** HOSI criteria and definitions evolved during the project period. This shift presented reporting challenges for some and concerns about meeting the commitments for achieving the goals for others. It also resulted in a presumed undercount of people "prevented" from a predatory loan. For replicating programs, it will be critical to establish criteria and definitions up front and track them consistently throughout the program.

Conclusion

In summary, HOSI acted as a stimulus for participating banks and community organizations to formulate a strategy for addressing the growing problem of predatory lending. The accomplishments of the program, in terms of community awareness, education of existing and potential homeowners and people counseled exceeded initial projections. Moreover, the inclusion of predatory lending in homeowner education programs will have a permanent effect on the programs themselves and impact on the communities served. The program offers considerable opportunities for potential replication across the country as a means to build permanent capacity in housing counseling agencies and as a means to effectively link financial institutions with counseling and support services.

ENDNOTES

- ¹ Center for Responsible Lending website, February 9, 2005.
- ² Organizations participating the first year only. ACORN was the organizer in Southeast Queens for the first year. The second year, the Coalition selected NHSJ to assume that role. AAFE participated in the counseling the first year but opted out for the second year. NHS of the North Bronx did not continue with the Coalition after the first year.
- ³ *Home Mortgage Lending and Foreclosures in Three New York City Neighborhoods* Summary of Findings. Neighborhood Economic Development Advocacy Project, October 2002.
- ⁴ For a complete list of alternative and remediation loans and grants, please see *HOSI Baseline Capacity Assessment*. Cathie Mahon, October 2002.