



**National
Urban League**

*Empowering Communities.
Changing Lives.*

TESTIMONY OF

CY RICHARDSON

**VICE PRESIDENT
HOUSING & COMMUNITY DEVELOPMENT
NATIONAL URBAN LEAGUE**

Before the

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

Hearing on

**“The Role of NeighborWorks and Housing Counseling
Intermediaries in Preventing Foreclosures”**

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Chairwoman Waters, I am Cy Richardson, Vice President for Housing and Community Development at the National Urban League. I thank you for the invitation to testify before this subcommittee on the issue of foreclosure prevention and the role of housing counseling intermediaries in this vitally important field of service delivery. Our views are based on decades of program delivery experience, but many of the key findings are culled from lessons learned over the past eighteen months through our participation as a grantee under the National Foreclosure Mitigation Counseling program administered by NeighborWorks America.

Established in 1910, the National Urban League is the nation's oldest and largest civil rights and direct services organization serving 2 million people each year in over 100 urban communities. Economic Empowerment – assisting clients to attain economic self-sufficiency through job training, good jobs, homeownership, entrepreneurship and wealth accumulation – leads the five-pronged strategy to advance the

mission of the Urban League Movement and is imperative to an improved "State of Black America." Today's hearing examining the role of housing counseling intermediaries in preventing foreclosures, and the efficacy of the NFMC program specifically, falls squarely within the economic empowerment discussion.

In my remarks I will discuss, from our perspective, the challenges and lessons learned in working with and on the behalf of clients at-risk of foreclosure, the broad state of the non-profit foreclosure prevention industry, and the specific opportunities and challenges presented by the NFMC program. I will highlight some of the challenges to implementing these strategies at a scale commensurate with the foreclosure problem. These challenges are significant, but they are not insurmountable roadblocks, and Congress needs to act now to ensure that meaningful and sustainable modifications are made to the NFMC program so that it remains a viable option for the myriad small, nonprofit service providers as well as dozens of national intermediaries and state housing finance agencies serving the millions of homeowners that will face foreclosure in the coming years.

I would like to begin by explaining why the growing number of foreclosures is of such critical importance to the Urban League and the communities we represent. Simply put, the right to the American Dream of homeownership has always been one of the most fundamental goals of the civil rights movement. It is vital because homeownership is the means by which most Americans build wealth and improve their own lives and the lives of their families, and homeownership is essential to the development of stable, healthy communities of which all Americans can be proud. For decades, the civil rights community has been struggling to

not only break down the barriers to housing itself, but also to the credit that most Americans need to obtain housing. The resistance that racial and ethnic minority communities have faced in obtaining fair and sustainable mortgage loans, from the practice of redlining to the scourge of predatory lending, lies very much at the root of the crisis in which we now find ourselves today.

The National Urban League has been a certified HUD Housing Counseling National Intermediary agency since 1997, and through the excellent work of our local affiliates, we provide various types of housing counseling and education services to individuals on a one-on-one basis, including the critically important “heavy touch” face-to-face counseling under the NFMC program.

NUL believes in-person, one-on-one counseling is the most effective form of foreclosure intervention and prevention for individuals in crisis. However, as you will hear from subsequent witnesses, loss mitigation counseling on a one-on-one basis is an extremely time consuming and labor-intensive process. On average, to provide counseling assistance to one individual from beginning to end through the loss mitigation process takes approximately 10 to 20 hours of an experienced housing counselor’s time. This time constraint far exceeds our network’s normal HUD funded average counseling time of 2 to 4 hours per person for other counseling services.

We have provided comprehensive housing counseling and education services to 35,000 to 40,000 clients on average each year with approximately 30 affiliates. While fundamentally concerned with devising strategies and approaches to improving the African American condition

in this nation, our affiliates are pleased to serve a diverse constituency. An internal census taken to gauge the service delivery characteristics of our affiliates in this area reveals that approximately 70% of our clients are African American, 20% are White, and roughly 10% are Hispanic. And over the last three fiscal years we have seen exponential growth in the number of homeowners coming to the Urban League in search of foreclosure counseling services across each of these racial categories. In FY07-08 with approximately 20 of these affiliates providing foreclosure prevention and intervention counseling services, we counseled 5,600 homeowners, an increase of over 55% from the previous fiscal year. And in the current FY08-09 fiscal year, already in the first 6 months of the year we have served nearly 5,000 homeowners in foreclosure prevention and project by year end to have served over 10,000, a more than 80% increase over FY07-08 volume. And each of these homeowners has received comprehensive one-on-one counseling services.

As the committee is aware, the National Foreclosure Mitigation Counseling program (NFMC) was created by Congress to be swiftly disseminated to address the immediate foreclosure crisis and to serve as many families as possible. Recognized as critical funding for non-profit HUD-approved housing counseling agencies, the NFMC funds are essential for these agencies to truly expand their operations and retain the counseling staff needed to meet the crisis. And these funds were appropriated by Congress with the understanding that they would be leveraged in the marketplace through private sector funds. However, while there have been some other sources supporting this work including local and state governments and a variety of private sources, they have been at much lower levels than what has been needed to address the

crisis, and these funds have been shrinking dramatically over the last year with the economic downturn while demand has skyrocketed.

After an initial ramp-up period adjusting to the new reporting and tracking needs of the NFMC program, in the first Round of the NFMC program in 2008, we completed our projected client numbers and served 3,400 clients with 24 affiliate counseling agencies. It is also important to note that this is only a portion of the total foreclosure clients seen by this sub-set of our foreclosure counseling affiliates involved in this program. As you know, each agency has other funding that help support this work and for which they report client numbers separately, including HUD.

The National Urban League certainly appreciates NeighborWorks' dedication and diligence with regard to devising the NFMC program design – not to mention the sheer hard work it takes to manage the emergency funding for foreclosure prevention nationwide. We are certainly pleased to have been awarded grants under NFMC I and II to continue our critical work in this area. However, the way this has been designed and managed has been effectively hindering movement and limiting the capacity of our affiliates to do this work, especially those that do the most intensive “Level 3 counseling”, which includes most of the organizations that serve a predominantly minority constituency. Indeed, it is our contention that several elements of the NFMC program design I and others will discuss today are making it increasingly difficult for our organizations to serve the most needy and vulnerable populations. For purposes of this hearing, I would like to briefly describe the major issues and concerns we have found with NeighborWorks and their administration of the NFMC program along with clear recommendations for problem resolution.

Structural Issues – Program Design and Its Impact

- **Issue: Goals and Payment Structure**

The way the program is structured tying payment to goals by geography set at the onset of the year is highly burdensome and ultimately an ineffective and rigid obstacle course preventing effective draw of funds for timely reimbursement of services rendered. We have been required to project goals by MSA and level of service for the year and are in effect not given sufficient room for the vagaries and realities of the crisis as it is playing out. In some areas these projections proved to be too low and the affiliates well exceeded these numbers, and in other areas they proved to be too high and the affiliate fell below the allowable 25% variance requirement from NeighborWorks.

This is a moving, breathing crisis that is changing every day, and in real terms any goals projected are based on old and outdated information as soon as they are made, and are likely to be inaccurate. Statistics in themselves are not a predictor of where and to what extent clients will actually come out for help, especially with growing confusion in the marketplace and the low level of effective marketing and promotion over the course of the year. Even with increased promotion through the President's housing plan, there is no way to effectively predict geographic location of client flow in any precise way.

However, the NFMC program is now designed to tie groups far too rigidly to their projected goals both overall and for every MSA in order to qualify for and receive payment draws for the entire network of affiliates involved. This aggregation of goals and payment process is causing

undue hardship to the affiliates that are serving high and growing numbers of clients, as we are unable to reimburse the high producing affiliates in a timely and appropriate way to keep their services moving.

The result of this approach is that we are held up for months for payment beyond the point of having met the established draw threshold. Meanwhile, these services have already been rendered and the costs expended by the counseling agencies, most of which are small agencies with thin margins of additional leveraged resources to cover this waiting period. In many cases, this has resulted in layoffs and loss of critical trained counseling capacity in the field, setting us all back in the goal for this program – expansion to meet the crisis.

Another impact of this approach has been that given the established payment structure, the unknowns about client numbers and payment timing, has meant that many affiliates did not feel comfortable hiring the necessary counseling staff or did not hire in time to meet their production goals.

- o **Issue: Administrative Costs and Their Impacts**

NeighborWorks structured the program to include 20% of counseling funds for “Program Related Support” designed to cover administration, data management, quality control, staff training, and marketing expenses related to this program. And while this set-aside was very useful, in reality the administrative costs have averaged more than 40% as this program has been highly time- and labor- consuming to manage.

In the early stages there was considerable confusion and numerous start-up challenges both at NeighborWorks and for the grantees in establishing, understanding and meeting the various data and program management requirements, which were completely different and more extensive than any other program before it. This led to a slow start for counseling agencies and a large number of clients that could not ultimately be counted towards the NFMC program due to data deficiencies. And even as things started to get more streamlined in some areas, there was an extensive increase in administrative work required in responding to and working through draw concerns and payment delays from NeighborWorks.

Recommendations- Structural:

To improve program operations and effective access to and utilization of these funds, we recommend the following:

- *Disaggregation:*
 - We recommend a disaggregated approach to payment to intermediaries for their affiliates' work. In this model, once established benchmarks are met by any affiliate, the Intermediary has funds available to them to pay the affiliate promptly on pace with their production.
 - There are a number of ways this could be done including paying the intermediary the full draw amount when the overall threshold is met, or possibly increasing

the number and pace of draws to the Intermediary possibly even to a monthly basis.

- This model leaves more flexibility for the Intermediaries to manage their network effectively maximizing local resources and operations, and holding the Intermediary accountable for paying producers and not paying under-producers based on an established formula.

- ***VariANCES and Intermediary Flexibility:***

Currently variance thresholds are at 25%, and we must meet or exceed at least 75% of each established MSA goal, or risk deductions from our counseling funds, even if the goals were exceeded in other areas. We certainly understand the need for accountability and the best coverage possible in areas of greatest need; however, since there is no way to control for client flow and we all want to be able to serve people anywhere they come in for help, we recommend the following:

- Increase the MSA variance threshold to 50% allowing more room for the real and unknown vagaries of client flow and keeping the funds flowing to the performers.
- Give Intermediaries more flexibility to reallocate goals as needed and keep the payments flowing to those areas that are on pace. In this scenario, the reallocation plans would include explanations and justifications but would be approved swiftly based on

some basic criteria and then left to the Intermediary to manage the appropriate payments out to the field. Any deductions from counseling funds would be calculated by the Intermediary using an established formula.

- Reduce and simplify the administrative requirements involved in reporting and management.

- ***Administration***

- Increase the amount of Program Related Support funds allowed from the total counseling award, or otherwise help supplement this funding with other resources.
- Reduce and streamline reporting and management requirements, draw procedures and approvals.

Procedural Issues:

- ***Duplication:***

NeighborWorks staff clearly understand the many legitimate reasons that clients may be served twice and by two different agencies or increasingly twice by the same agency. Among other reasons this includes clients that received no follow-up from one agency and possibly no outcomes; received a workout plan or loan modification that they couldn't afford and were unable to reach the other agency or get help from their servicer; and an increasing number of re-defaults born from either inappropriate or insufficient workout

from the servicer or an additional change in circumstances such as a job loss.

In each of these cases, our affiliates serve these clients, get modifications or other outcomes, but cannot get paid because according to the NeighborWorks system another organization has submitted for reimbursement for this service to this client first and they are returned to our agencies from NeighborWorks as "duplicates." This happens more frequently to the agencies like ours that provide comprehensive and intensive one-on-one or "Level 3" service, as it takes longer for these groups to submit their data than for an agency that provides light touch "Level 1" service. In some cases this issue comes to a very significant percentage of total clients served, as much as 10% or more.

This issue must be resolved, since in these cases both agencies provided the service that was needed by the client to resolve their problem, the groups have expended the resources, and without compensation are being put further and further in the red, detracting from their ability to serve new clients. As explained before, these agencies do not have a sufficient cushion to absorb this loss, especially now that the declining economy has meant shrinking private resources for this work.

Recommendation:

- o Under the circumstances we support the idea put forth by NeighborWorks of applying a set percentage threshold to all Intermediaries on this issue, but believe this percentage

should be at least 5%, the national average according to NeighborWorks from their database, not 3% as finally codified by NeighborWorks in recent weeks.

- o And allow Intermediaries to make the case for greater threshold and payment on “Duplicate” services, demonstrating service received and outcomes achieved.

Marketing

While there was some investment in marketing on this issue through NeighborWorks in partnership with the Ad Council and naturally through the media as developments unfolded over the course of the year, most of this promotion directed client flow to the national HOPE hotline, with designs this would be an effective triage and portal for dispersion. However, things did not pan out as well as expected; our agencies in many cases received few to no referrals through this effort, and the hotline was inundated and caught short on staffing and structural capacity for the entire Round 1 period and counting.

While some solutions have begun to be implemented or experimented with in the last two months, the impact on minority and low-income homeowners has been severe. These homeowners weren't able to be reached by marketing efforts, weren't able to be served by the hotline, or didn't know where to turn for help, which in many areas meant low turnout to local counseling agencies.

To effectively reach the minority markets at the volume that they are impacted by this issue is going to take far more investment and

targeted marketing strategies that in many ways are best done by Intermediaries in this case. The 20% margin in the PRS funds were more than consumed by administrative costs at both the local and Intermediary level and therefore have not been able to support this need.

- **Recommendations on Marketing:**

- That NeighborWorks allocates sufficient resources within its purview and that additional resources are marshaled together for this purpose. Proposals will be forthcoming detailing the needs and marketing plans from the National Urban League and other Intermediaries for this purpose.
- That NeighborWorks allocate \$2 million of the \$6 million recently awarded to NeighborWorks for a Rescue Scam Awareness Campaign, or some other agreed upon amount, to facilitate expansion of the campaign and ensure greater reach into minority communities.
- That any plan for use of these Rescue Scam funds be developed in conjunction and partnership with the NFMC Intermediaries in order to ensure the most effective plan possible.

The Servicer Compensation Issue

In recent months, NUL and other Intermediaries providing this deep touch service have taken an in-depth look at costs for this Level 3 service and have found that it approximates \$750 – \$1,000 per client on average.

Yet maximum compensation under the NFMC program in Round 1 has been only \$350, and in Round 2 is only up to \$450 per client.

NeighborWorks and Congress always counted on servicer funds coming to the table to complement the NFMC funds for counseling services related to their troubled loans, but this has not happened yet for most of the groups providing the full slate of services that leads to actual outcomes (Level 3) like NUL. This funding is critical to compensating for the client expense not covered by the NFMC funds, yet only a designated few have been receiving these funds to date, and only those groups providing phone counseling like the HOPE hotline.

NeighborWorks has recently brokered a conference call with a number of the servicers and we hope that they will continue to broker this process and ultimately help bring sufficient funds to the table to help fairly compensate this work, for the sake of the future leveraging and effectiveness of the NFMC funds and the issue as a whole.

Moving Ahead from Round 1 into Round 2

In Round 1, our agencies had no meaningful marketing funds, few to no referrals from the HOPE hotline, confusion and start-up challenges with all of the new NFMC program requirements, difficulty managing the extensive reporting requirements given low staff capacity for this function in the field, and a lot of confusion over the course of the year.

We also have new affiliates beginning with this program that will have learning curves this year, which if things don't change may compound some of the problems moving forward.

- **Recommendation:** Given that some of the grantees and sub-grantees made production assumptions last February that simply did not pan out, we recommend that any deficiencies from Round 1 should be put into Round 2 so we can all proceed.

Financial Data for Round One NFMC Funds

To assist our collaborative efforts to better understand the NFMC investment in various eligible service levels of counseling, we have requested and would like to see Round 1 NFMC financial reports using NeighborWorks' most recent data. We have not received this data back from NeighborWorks at this time.

1. The aggregate Grant/Fee disbursement for NFMC in the following categories:
 - A. Total Level 1 disbursement
 - B. Total Level 2 disbursement
 - C. Total Level 3 disbursement
2. The aggregate Grant/Fee disbursement matrix for NFMC categorized by each Intermediary and by:
 - A. Total Level 1 disbursement
 - B. Total Level 2 disbursement
 - C. Total Level 3 disbursement

We believe that together we can make effective changes to the design and operation of this program that works for Congress and for the agencies doing the critical work to stem the foreclosure crisis. We trust that you will give due consideration to the issues we have laid out here as they are obstacles in the way of effective program operation, client service,

and fund expenditure and we trust you will also give due weight to our recommendations for resolutions.

It is in all of our interests to make this program more efficient and effective and we look forward to working together to ensure success.