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http://www.nclc.org/foreclosures-and-mortgages/rebuilding-america.html

Foreclosure Mediation Can Save Millions of Homes and Taxpayer Money

National Consumer Law Center Report Urges All States to Quickly Adopt Strong Programs

BOSTON, Mass.—Looking for a fix to help the broken housing market? There's already a proven inexpensive solution that can help head off the predicted 10 million homes in the United States that will be lost to foreclosure over the next several years. A new report from the National Consumer Law Center (NCLC), *Rebuilding America: How States Can Save Millions of Homes Through Foreclosure Mediation,* documents how states with strong programs are preventing foreclosures while saving money for investors and taxpayers.

This nationwide report reviews existing programs in 19 states and makes recommendations for best practices for all states to adopt, using foreclosure mediation data from the last three years to draw its conclusions. The report includes examples of programs that are more successful (Connecticut, Nevada, and New York) and those that are less so; state references per section; tables; and a history, including statistics, of documented servicer problems and the Home Affordable Modification Program (HAMP).

"Evidence shows that effective foreclosure mediation can keep paying borrowers in their homes for the long term while also saving billions of dollars for taxpayers and investors," said Geoff Walsh, an attorney at National Consumer Law and author of the report. "Our report reviews programs in use in 19 states and makes recommendations for best practices drawn from that analysis. The evidence is in that mediation programs can be financially self-sustaining, do not prolong inevitable foreclosures, and are a proven tool that can help rebuild the fragile U.S. economy. If all states adopted strong foreclosure mediation programs, it would prevent further harm to millions of families while also saving local communities and investors billions of dollars."

Highlights and key recommendations from the report include:

- **Foreclosure mediation programs and conferences provide substantial community benefits at little or no cost.** Mediation fees average from none to less than $1,000, typically paid by the homeowner and/or the mortgage lender. In comparison, investors lost an average $145,000 per home foreclosure in 2008, and foreclosures just in California have resulted in nearly $500 billion in aggregate direct and indirect costs.

- **Effective mediation programs *do not* prolong foreclosures.** Most mediation programs work within the time frames for existing state laws. In Philadelphia, for example, the typical foreclosure case spent 53 days in a foreclosure conference while the average time frame to complete an uncontested foreclosure was 10 months.

- **Foreclosure mediation programs connect borrowers with housing counselors. Borrowers who receive housing counseling are much more likely to avoid foreclosure, and obtain affordable as well as sustainable loan modifications.** According to a recent study, 63% of borrowers who obtained modifications with counseling sustained the modifications, while only 8%of borrowers who obtained modifications without counseling sustained them.

- **Not all foreclosure mediation programs are equal; all states should adopt foreclosure mediation programs with enforceable standards and robust outreach as permanent features of state foreclosure laws as quickly as possible.** Florida's mediation program lacked enforceable standards, did not compel servicers to negotiate in good faith, and had an ineffective outreach component, so many homeowners were unaware of it. The state recently suspended the program due to lack of participation. By contrast, New York and Connecticut programs are reaping more success: During each of the years 2010 and 2011, **New York** courts conducted over 80,000 conferences in foreclosure cases. Before the courts implemented this foreclosure conference system, homeowners did not participate at all in about 90% of the foreclosure cases, Now, homeowners appear for conferences to discuss settlement options with their lenders in 90% of the cases, a complete reversal of the prior dynamic. In certain locations, such as Staten Island, more than half of homeowners who come to the conferences appear with attorneys. When lenders do not abide by conference rules, New York courts impose sanctions, such as tolling of interest and barring foreclosures. In Staten Island, a third of the homeowners who complete the conferences obtain loan modifications. **Connecticut**, has a similar program and more than 50% of homeowners who complete mediations end up with a permanent loan modification.

- **Strong foreclosure mediation programs can work hand-in-hand with other tools to rebuild the nation's broken mortgage market and should be used to maximize HAMP modifications.** As documented in previous NCLC reports, servicers can make sustainable loan modifications yet many choose not to do so. The modified loans' default rate over one year dropped from 56.2% in 2008 to 25.7% in 2010. HAMP loan modifications were the most sustainable of all with a 19.4% (2010) and 17.3% (2011) redefault rate after one year.

- **Policymakers can use mediation programs to help preserve minority homeownership; gains made over the last decade are vanishing.** Black and Latino homeowners face a doubly high foreclosure rate, even when adjusted for income. Many minority families were initially targeted for unaffordable subprime loans, and are denied loan modifications more often and steered into less affordable non-HAMP loan modifications more frequently than non-minority homeowners. Mediation programs provide needed oversight over practices that continue to disproportionately impact minorities.

- **Borrowers in mediation must receive accurate information about an increasingly unaffordable rental market.** Renters, especially those who are low-income, are more than twice as likely as homeowners to spend more than 50 percent of income for housing. Mediation programs should refer all homeowners to housing counselors to evaluate the costs of renting before giving up on saving a home.

Rebuilding America: How States Can Save Millions of Homes through Foreclosure Mediation is the National Consumer Law Center's fourth annual report on foreclosure mediation and builds on NCLC's extensive body of foreclosure prevention work at http://www.nclc.org/issues/foreclosures-and-mortgages.html.

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The National Consumer Law Center® (NCLC®) is a non-profit organization specializing in consumer issues on behalf of low-income and other vulnerable people. Since 1969, NCLC has worked with legal services and nonprofit organizations as well as government and private attorneys across the United States, to create sound public policy for low-income and elderly individuals on consumer issues.