



Foreclosure Avoidance Research II

A follow-up to the 2005 benchmark study



Research Objective

“Lenders are unable to contact borrowers in more than half of the foreclosures we see at Freddie Mac. That’s why it is imperative to closely track borrower awareness of workout options so the industry and the government can evaluate and enhance their efforts to get more borrowers talking to their servicers about avoiding foreclosure.”

Ingrid Beckles, Vice President of Servicing and Asset Management, Freddie Mac.

Methodology

- Freddie Mac retained Roper Public Affairs and Media to conduct this research to give us insight into the behavior of delinquent borrowers as well as homeowners in good standing, and to understand why borrowers do not contact their lenders. This research is an update to benchmark research conducted in 2005.
 - » The sample includes 2,411 adult homeowners (age 18-plus). The sample was split into two groups of borrowers.
 - Good Standing (1,407): Adult homeowners who say they have never been more than one month late on a mortgage payment, including 410 who have paid off their mortgages.
 - Delinquent Borrowers (1,004): Adult homeowners who are more than one month late on their mortgage payment.
 - » All interviews were conducted by telephone (CATI) from 10/23/07 to 11/14/07 by Roper Public Affairs and Media at a Roper Public Affairs and Media interviewing facility.
 - Interviews took, on average, 20 minutes to complete.
 - » The margin of error for each group is +/- 3 percentage points at the 95% confidence level.

Delinquent Borrowers and Good Standing Homeowners: *A Demographic Overview*

- In general, delinquent borrowers when compared to good standing homeowners are:
 - » Younger than good standing homeowners (62% vs. 40% under age 50, respectively).
 - » More likely to be employed full- or part-time or self-employed (76% vs. 63%).
 - » More likely to live in households with an annual income of less than \$75,000 (64% vs. 48%).
 - » Less likely to have prior experience with home ownership (47% are living in their first home).

- In contrast, good standing homeowners are:
 - » More likely than delinquent borrowers to be at least 60 years old (35% vs. 15%).
 - » More likely to have prior experience with home ownership (63% have owned a home in the past).
 - » More likely to have annual household incomes exceeding \$100,000 (27% vs. 11%).

- The demographic differences between delinquent borrowers and good standing homeowners have been remarkably stable since the 2005 survey.

Key Attitudinal and Behavioral Differences

■ In general, delinquent borrowers:

- » Worry often about having enough money.
- » Contend with many financial obligations each month.
- » Wish they had help with prioritizing their finances.
- » Are about four times as likely to pay key monthly bills late.
- » Feel less comfortable talking to their financial institutions* about personal finances.
- » Are less likely to feel that their financial institutions treat them fairly.
- » Are about evenly split between those believing their financial situation is worse and those saying it is better or about the same as two years ago.

■ Meanwhile, good standing homeowners:

- » Worry less about having enough money.
- » Have fewer financial obligations (i.e. personal loan or second mortgage) each month.
- » Believe they are on top of their finances.
- » Are rarely, if ever, late on any of these financial obligations.
- » Do not find financial institutions intimidating.
- » Strongly agree that their financial institutions treat them fairly.
- » Mostly feel that their financial situation is about the same or better than it was two years ago.

*Respondents were asked about “banks and similar institutions that lend money”

- The study found no major differences among racial and ethnic groups on most issues.

Delinquent Borrowers and Good Standing Homeowners have Some Commonalities

Both groups...

- » Generally believe their financial institutions provide them with adequate information
- » Are unaware of many of the options available to them if/when they are struggling to make a mortgage payment
- » Recognize the priority of a mortgage payment over other bills
- » Understand that being even one payment behind on a mortgage will likely result in bad credit ratings
- » A sizable minority have at least a college degree (45% of good standing vs. 37% of delinquent borrowers).
- » Most are married or living with someone as if married (70% vs. 74%, respectively).
- » Both groups believe the country is going in the wrong direction and that the U.S. economy is no better or worse than it was two years ago.

Borrower Perceptions of the Risks of Missing Mortgage Payments

- Media coverage about the housing crisis has not altered homeowner opinions about the financial risk of missing mortgage payments.
 - » Perceptions among delinquent borrowers and good standing homeowners, about the consequences of missing mortgage payments are virtually unchanged since 2005.

- Compared to being one or two mortgage payments behind, homeowners believe being three or more payments late greatly increases the...
 - » Possibility of being forced to leave their home (up 25 points).
 - » Likelihood of bankruptcy (up 14 points).
 - » Inability to get a loan (up 11 points).

- However, the percentage of people who say that nothing would happen after missing three or more mortgage payments because “it takes a while for anything to happen if a person is late on a mortgage payment” has increased slightly since 2005, from 13% to 20% among all homeowners.

Delinquent Borrower, Mortgage Lender Contact More Frequent in 2007 than 2005

- Three-quarters (75%) report having personally tried to contact their mortgage lender directly to discuss their difficulties, up from 68% in '05.
- Most delinquent borrowers (86%) recall being contacted by their mortgage lender, either by phone or letter, up from 75% in 2005.
- Top reasons the 25% of delinquent borrowers who did not contact their mortgage lenders gave:
 - » Belief they could handle the situation themselves (18%)
 - » Belief they lacked the money to repay (16%)
 - » Fear, embarrassment, or nervousness (15%, comparable to 2005 results)
 - » Claim they never had difficulty paying their mortgage (12%)
 - » Belief there was nothing the mortgage lender could do to help (8%)
- Nine in 10 respondents say they would be more likely to contact their mortgage lender if they had trouble paying their mortgage, if they knew alternatives could be offered, nearly identical to the proportions from the 2005 survey.

Despite Increased Contact Levels, Specific Options are Still Not Top-of-Mind

- When asked unaided, the majority of homeowners say they are not aware of options that mortgage lenders can offer to a person having trouble with their mortgage (57% of delinquent borrowers and 65% of good standing owners).
- However, when asked directly, homeowners are most likely to know about:
 - » The “lump sum” option...paying the mortgage lender the entire amount overdue.
 - » “ARM to fixed rate”...turning an adjustable-rate mortgage into a fixed-rate.
 - » Majorities also know about repayment plans, changing the interest rate on a loan, adding missed payments to the existing balance, and extending the number of years allowed for repayment.
- Homeowners are least likely to know about:
 - » Deed-in-lieu of foreclosure agreements.
 - » “Forbearance agreements,” where payments are temporarily delayed.
 - » The option of talking to a housing counseling agency.

Delinquent Borrowers Favor Options* They Are Least Likely to Know About

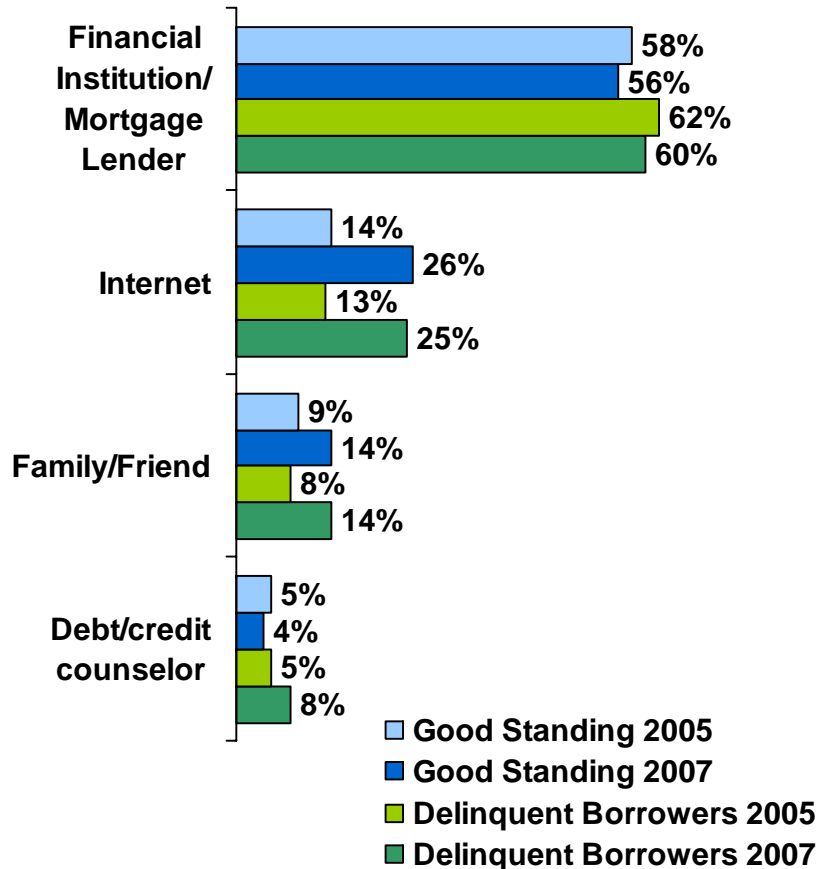
<i>Among Delinquent Borrowers</i>	Awareness (Aided)		Likely to Use		Knowledge Gap**
	2005	2007	2005	2007	2007
Talking to housing counseling agency	36%	44%	74%	74%	30
Forbearance agreement	36	43	70	72	29
Adding missed payments to loan balance	54	54	72	73	19
Changing interest rate	58	55	75	72	17
Extending mortgage	53	52	66	69	17
Repayment plan	60	63	67	64	1
ARM to fixed-rate	61	68	64	68	0
Lump sum payment	74	78	68	66	-12
Assumption of mortgage	43	42	26	28	-14
Deed-in-lieu of foreclosure	41	41	23	28	-13

Knowledge gap shows room to educate delinquent borrowers on these options

*Note: Options that may be available through a mortgage servicer.

**Knowledge Gap = 2007 Likely to Use – 2007 Awareness

More Homeowners Look to Internet, Family and Friends for Information on Avoiding Default



- Six out of ten respondents said their financial institution or mortgage lender was their first choice for information about managing mortgage payments or avoiding default, (about the same as in 2005).
- But, one in four delinquent borrowers turn first to the Internet for such information, up 92% since 2005.
- The percentage of delinquent borrowers turning to family or friends has nearly doubled from 8 percent to 14 percent since 2005.
- The percentage turning to debt or credit counselors was statistically unchanged between 2007 and 2005.

* Note: Totals may exceed 100% due to the acceptance of multiple responses

Homeowners Tend to be Negative About Financial Institutions in General, But are More Positive About Experiences with Their Own Financial Institutions

On the one hand.....

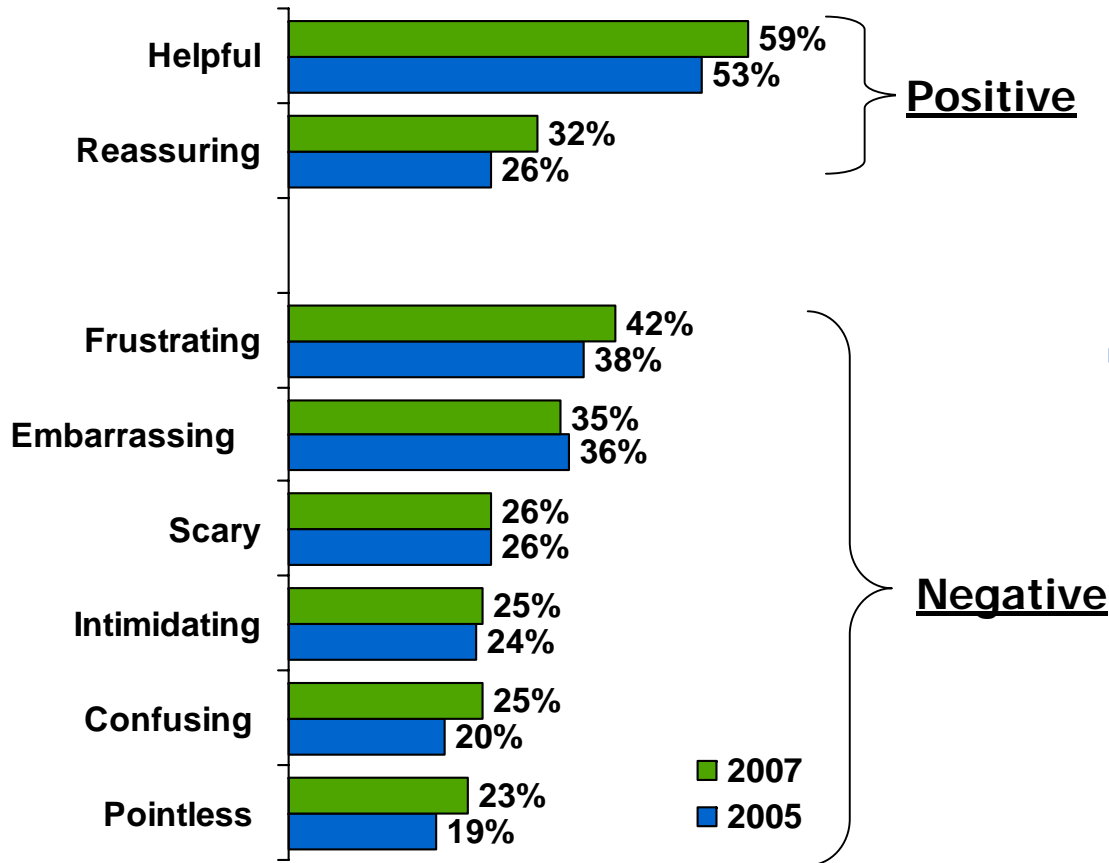
- Homeowners generally agree that financial institutions treat some customers better than others (80% of good standing owners and 87% of delinquent borrowers believe this).
- Majorities feel that financial institutions do not want to work with people who are struggling financially (60% good standing, 73% delinquent borrowers).
- Large majorities believe that dealing with a financial institution “can be a bit of a hassle” (71% good standing, 83% delinquent borrowers).

On the other hand.....

- Most believe their financial institution treats them fairly (93% of good standing owners and 84% of delinquent borrowers believe this).
- Most feel comfortable contacting their financial institution about their personal finances (86% good standing, 77% delinquent borrowers).
- Most believe that their financial institution provides helpful information about a variety of financial matters (87% good standing, 81% delinquent borrowers).

Delinquent Borrowers See Both Good and Bad in Contacting Their Mortgage Lender

(Among delinquent borrowers who have contacted their mortgage lender directly)



- For those delinquent borrowers who do contact their mortgage lender directly, a growing majority are finding their mortgage lenders to be “helpful” and a third say it was “reassuring.”
- However, many also describe the interaction negatively.
 - » Four in 10 say the contact was “frustrating” while similar proportions describe it as “embarrassing”
 - » About one in four consider the conversation with their mortgage lender to be “scary,” “intimidating,” “confusing,” or “pointless.”

* Note: Totals may exceed 100% due to the acceptance of multiple responses

Awareness for Hope Hotline and the Public Service Announcements by the Ad Council

- 23% of Delinquent Borrowers, and 20% of those in good standing, have seen the PSA by the Ad Council.
- 8% of delinquent borrowers and 7% of those in good standing had awareness of the helpline.

The HOPE Hotline (888-995-HOPE) operated by the Homeownership Preservation Foundation provides free foreclosure counseling nationwide. The hotline is the subject of a series of public service announcements created by the Ad Council and supported by NeighborWorks America, the Homeownership Preservation Foundation (HPF), Freddie Mac and a coalition of mortgage investors and lenders.

What the Industry Can Do

- Take advantage of the fact that 9 in 10 homeowners claim to open correspondence from their financial institutions.
 - » Mailings should detail the options available and persuade delinquent borrowers to pursue them.
- Foster trust by encouraging borrowers to understand fully all of their options before making any changes to their mortgage.
 - » Delinquent borrowers do not understand the range of resources offered through lenders, non-profit agencies, the Foreclosure Avoidance Hotline (888-995-HOPE), and investors like Freddie Mac.
- Emphasize options in which borrowers retain homeownership and avoid scams that involve the property deed.
 - » Unawareness of workout options may make delinquent borrowers vulnerable to foreclosure scams involving deed transfers.
- Use the Internet as an education tool.
 - » The Internet is a promising place to promote responsible workout options to delinquent borrowers. Our surveys show that struggling homeowners are increasingly likely to turn to the internet for help and information.