



Default Servicing Best Practices for Housing Counselors

Housing counselors can play an important role in assisting homeowners who have fallen behind on their mortgage payments and may be facing foreclosure. Acting as trusted advisors of borrowers, housing counselors can help improve a Servicer's contact rates with delinquent borrowers and assist the borrowers when dealing with delinquency. The following best practices are being used within the industry by successful counselors and Servicers working diligently on homeownership preservation efforts. These tactics have proven to be successful in enhancing and achieving optimum results in mortgage and non-mortgage debt counseling to assist borrowers.

For additional information and resources, visit our Housing Professionals Resource Center at <http://www.freddiemac.com/corporate/housingpros/> and scroll to the "Learn from Best Practices in Foreclosure Intervention Counseling" section to find a set of case studies that document best practices. These case studies highlight effective strategies such as using triage protocols, conducting client intake in groups, managing caseloads, and more.

Early Intervention

The key to successfully assisting a delinquent borrower and preventing future default is to make contact with the borrower who is responsible for paying the mortgage as early in the delinquency as possible. Establishing rapport with the borrower and expressing a desire to identify and discuss the most appropriate options for delinquency resolution is called making quality right party contact. Establishing early and quality right party contact is of utmost importance: the more payments behind a borrower falls, the higher the probability he or she will not be able to reinstate the loan in full and/or take advantage of foreclosure prevention options. Enhance your neighborhood outreach efforts via workshops, media, and partnerships with other local and national nonprofit agencies to reach delinquent borrowers.

In October 2011, Freddie Mac implemented changes to our loan servicing and delinquency management requirements to streamline servicing processes, including requiring Servicers to contact delinquent borrowers sooner and more frequently. For additional information on these requirements, go to the "Servicing Alignment Initiative" section of our Housing Professionals Resource Center at <http://www.freddiemac.com/corporate/housingpros/> and download our fact sheet for housing counselors.

Tactic One: Reach the borrower by phone.

While face-to-face homeownership counseling is generally ideal, phone counseling has proven to be very effective in resolving delinquency and preventing foreclosure.

- Make the first call the best call. The very first phone call is the best opportunity for the counselor to establish trust with the borrower. Getting off to a solid start will help sustain contact with the borrower.

- Vary your outbound calling routine. Attempt to make calls to the borrower at different times each day. Saturdays and after 6:00 p.m. weekdays are often prime times to reach borrowers. Remember, if you can't talk to a borrower, you cannot assist them.
- Utilize all available contact phone numbers. This could include the home number and work phone numbers (unless the borrower indicates you cannot contact them at their place of employment or you have reason to know that the employer would prohibit such a call).
- Set appointments. Setting appointments for calls can provide good results. Use this approach when a borrower does not have time to discuss the issue at the moment, but is interested in assistance and willing to set up a time.
- Make reliability and consistency a priority. Return borrowers' calls promptly and at designated times if appointments are set.

Tactic Two: Establish the borrower's intention.

Before pursuing delinquency intervention, it is important to clarify with the borrower what their goal is: to attempt to resolve the delinquency and stay in their home or to release homeownership. Understanding the borrower's intention will guide which workout scenarios are best to pursue.

As part of the changes to our servicing and delinquency management requirements to streamline servicing processes, Servicers are required to attempt quality right party contact with delinquent borrowers to determine the following information (you can use this list when interviewing borrowers):

- Determine the reason for delinquency and nature of the cause; and
 - Is it temporary or permanent?
- Determine whether the borrower has vacated, or plans to vacate, the property; and
- Determine the borrower's current perception of his or her financial circumstances and ability to repay the debt; and
- Set payment expectations and educate the borrower on the availability of alternatives to foreclosure; and
- Obtain a commitment from the borrower to either pay the total delinquent amount or engage in an alternative to foreclosure solution.

Clarify the financial difficulty. An alternative to foreclosure will be considered if default is caused by hardship. A hardship is a change in a borrower's financial situation that increases the borrower's expenses or decreases income, either temporarily or on a long-term or permanent basis. Things to remember:

- Understand the full financial picture, including the cause of financial hardship.
- The hardship may not be the sole cause of current financial difficulty or there may be multiple hardships. There may be further underlying reasons causing financial distress.
- Borrowers experiencing financial difficulty will be asked by their Servicer to complete a *Uniform Borrower Assistance Form*, or Form 710, which requests the borrower's financial information, including the reasons for their financial hardship. Form 710 also includes a list of the precise income and hardship documentation that is required for each type of hardship. This income and hardship documentation **must** be provided to a Servicer before the Servicer can evaluate a borrower for an alternative to foreclosure. Access the *Uniform Borrower Assistance Form* by clicking here: http://www.freddiemac.com/singlefamily/service/docs/Form_710.doc

Tactic Three: Collect financial information.

Collecting accurate financial information and careful budgeting are the underlying foundation of a successful delinquency intervention.

- **Review and confirm all income and expense information and documentation provided by the borrower.** Accuracy is key! Overstated or understated financials will only inhibit a borrower's ability to retain homeownership or qualify for a liquidation option. A current credit report to verify expenses is suggested if the borrower consents.
- **Obtain borrower written consent to review, obtain, and share a borrower's financial information.** Applicable law may require the housing counselor to obtain a borrower's written consent to obtain a credit report from a credit reporting agency and/or to discuss the borrower's financial situation with the Servicer or other third parties.
- **Review financial information and documentation to determine if retaining homeownership is economically feasible.** If the borrower has the ability to make monthly payments, but cannot reinstate in full due to the size of the delinquency, or the borrower only has a temporary hardship, assist the borrower to contact the Servicer to make a workout request aimed at home retention. Otherwise, the best alternative may be to sell the property. In this case, if the estimated value of the property is less than the amount due on the mortgage, assist the borrower in submitting a request for a short sale or a deed-in-lieu of foreclosure transaction.

- **Focus on homeownership.** The borrower should be clear that homeownership is a priority. When analyzing the borrower's current expenses, identify non-mortgage payments that could be restructured or identify unnecessary expenses that may be avoided. Are there arrangements that can be made to reduce monthly debt payments to unsecured or junior mortgage creditors? Are there other discretionary monthly expenses (e.g., cable or cell-phone bills, or other discretionary spending) that could be eliminated? Is the borrower impulse spending?
- **Obtain borrower buy-in.** If the borrower does not agree with discussed budget adjustments, any mortgage assistance provided will be difficult to sustain.

Tactic Four: Complete a Borrower Response Package and Send it to the Servicer.

To best assist a borrower, counselors should work with the Servicer to coordinate the hand-off of documentation as a complete Borrower Response Package for the Servicer to review. Consider installing Hope LoanPort® in your shop to speed up complete Borrower Response Packages to your clients' Servicers in a secure environment. For more information, visit https://www.hopeloanportal.org/about_loanport.php.

- Clearly explain all workout and relief options. A forbearance plan of no more than 12 months in duration should lead to one of the following:
 - Reinstatement
 - Repayment plan
 - Loan modification
 - Sale of the property
 - Deed-in-lieu of foreclosure
- Clearly explain that the Servicer will make the final decision about a workout, and that contact with the Servicer is required.
- Give the borrower a clear explanation of the required documents. When initially putting the Borrower Response Package together, the required documentation must be complete and accurate.
 - Submit a complete Borrower Response Package request to the Servicer. Generally, a Servicer will refer a mortgage to foreclosure the month after the borrower has missed four monthly payments. Borrowers should be strongly encouraged to submit a complete Borrower Response Package as early in the delinquency as possible to avoid an unnecessary referral to foreclosure.

- The borrower should be advised to contact the Servicer for follow-up, and to respond to all messages and requests from the Servicer for additional information.
- Freddie Mac Servicers are required to respond to a complete Borrower Response Package no later than 30 days after it is submitted. If a timely response has not been provided, housing counselors should follow up with the Servicer by phone as well as in writing. In addition, the housing counselor should contact the Servicer's independent escalated unit if the borrower was not appropriately evaluated for or was inappropriately denied a foreclosure alternative.

For information on documentation requirements for alternatives to foreclosure, please go to <http://www.freddiemac.com/corporate/housingpros/> and click on the housing counselor-focused fact sheets listed under Freddie Mac's Borrower Outreach Initiatives.

Tactic Five: Open successful communication channels with Servicers.

Establishing an effective working relationship with Servicers is the best way for housing counselors to get borrowers the help they need.

- When a contact in a servicing shop is made, keep it. Build a contact list of Servicers/lenders -- the people and departments you know can assist you to help borrowers.
- Ask Servicers for a listing of all of their required documents to consider a Borrower Response Package complete. A borrower's unique financial situation may require documentation that is not specified on the Form 710 or additional documentation may be required to clarify inconsistencies in the documentation already submitted.
- Three-way conference calls can eliminate miscommunication between counselors, Servicers/lenders, and the borrower -- and build stronger relationships for future needs.

Tactic Six: Stay up-to-date.

Counselors should seek ongoing training and educational opportunities to keep current on industry practices and standards.

- Seek out training opportunities from Servicers, investors, HUD, and/or national nonprofit housing counseling intermediaries to stay current on industry guidelines and practices.
- Keeping up-to-date on industry guidelines will help you provide clear and consistent messages to borrowers.

- For more information on Freddie Mac initiatives, best practices, and training opportunities, please visit <http://www.freddiemac.com/corporate/housingpros/>
- Share information between counseling groups. Share what works and what does not.
 - Exchange contacts for borrower assistance programs (Servicers, lenders, faith-based groups, other charity organizations, utility assistance programs, home repair programs, tax reduction programs for the elderly and disabled).
 - Share best approaches for making contact with and obtaining cooperation from borrowers.
 - Share training techniques that work.

Note: You may find that you already use many of these best practices. We encourage you to improve existing processes and pursue new methods to increase efficiencies in your organization.

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