

Addressing the Credit Impacts of Foreclosure October 13, 2011

Organized by the
Federal Reserve Bank of San Francisco
in partnership with the
Federal Reserve Bank of St. Louis

The **Connecting Communities™** series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

WELCOME

Thank you to everyone for joining this session.

This call is being recorded.

An archived recording of this session will be available on our Connecting Communities™ website shortly after the session has taken place .

- www.stlouisfed.org/connectingcommunities

We will be taking questions via e-mail during this session.

These questions may be part of the recorded archive for this session.

- communities@stlouisfed.org

In connection with this session, several of our Reserve Bank offices have posted links to a **variety of additional resources on this topic**. We encourage you to browse through this list and to contact your regional office if you would like additional information on any of these items.

LEGAL NOTICE AND DISCLAIMER

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

TODAY'S AGENDA

Welcome

Introductions

What is Foreclosure Recovery?

The Impact of Foreclosure on Credit Scores

The Process and Pitfalls of Credit Rebuilding

Engaging Employers in Financial Recovery

Audience Q&A session

TODAY'S PRESENTERS

- **Welcome**

*Melody Nava, Regional Manager, Community Development,
Federal Reserve Bank of San Francisco*

- **What is Foreclosure Recovery?**

*Lena Robinson, Regional Manager, Community Development,
Federal Reserve Bank of San Francisco*

- **The Impact of Foreclosure on Credit Scores**

Frederic Huynh, Principal Scientist, FICO

- **The Process and Pitfalls of Credit Rebuilding**

Joy Thormodsgard, President and CEO, SurePath Financial Solutions

- **Engaging Employers in Financial Recovery**

Jonathan Harrison, CEO, Emerge

- **Audience Q&A session**

*Melody Nava, Regional Manager, Community Development,
Federal Reserve Bank of San Francisco*



What is Foreclosure Recovery?

Presented by *Lena Robinson*, Regional Manager
Federal Reserve Bank of San Francisco

Significant Numbers Affected

- From April 2009 through June 2011, an estimated 2.3 million foreclosures were completed
- Number of foreclosures still declining, but uptick in foreclosure starts for first time since mid-2009
- However, according to the Mortgage Bankers' Association (MBA), two million properties were in foreclosure process and 3.6 million properties were still in some stage of delinquency in 2nd Qtr 2011.
- 10.8 million underwater mortgages as of 2nd Qtr 2011

Why Foreclosure Recovery?

- Foreclosure recovery looks beyond the singular event of keeping or losing a home to address the myriad issues that impact homeowners and communities affected by foreclosure.
 - Not an abandonment of work on prevention or modifications
 - Paradigm shift from external fix to personal control

Key Elements of Foreclosure Recovery

Two parts:

- Individuals/families (households)
- Communities

Three components:

- Housing
- Personal
- Financial

Five steps:

- Managing foreclosure and options for a graceful exit
- Relocation: housing and shelter
- Restoration: normal routine and safety net
- Rebuilding: credit and finances
- Renewal: long-term stability and looking ahead

Potential Costs to Families and Communities

- Increased costs and reduced availability of rental housing
- Higher debt service requirements that reduce disposable income
- Negative social implications of low credit scores beyond cost of credit (e.g. employment)
- Emotional costs to families and impact on academic performance of children
- Elimination of accumulated wealth and assets (e.g. retirement and savings)

Resource Guide for Foreclosure Recovery

A publication of the Federal Reserve Banks of Atlanta and San Francisco (http://www.frbsf.org/community/issues/toolkit/toolkit_3.html)

Local Resources at your Fingertips

- Housing counseling /relocation
- Social services (i.e. food banks, income support)
- Public utility assistance
- Job training or entrepreneurship assistance
- Credit counseling and repair
- Mental health services and counseling
- Legal Services (e.g. bankruptcy, scam reporting)
- Regulatory and enforcement agencies

Taking on Foreclosure Recovery

- “. . . America does not need a range of new services to address the impacts of the foreclosure crisis on families but, rather, an expansion . . . of the types of services that already exist . . .”

Source: http://www.urban.org/UploadedPDF/411910_impact_of_foreclosures_primer.pdf

FICO[®] Score Questions

How Mortgage Delinquencies Affect FICO[®] Scores

Frederic Huynh
Principal Scientist
Analytic Development - Scoring

Analytic Development - Scoring
Principal Scientist

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Sample Credit Report

“The Five Information Zones”

1

IDENTIFYING (PERSONAL) INFORMATION

I. Wishfor Credit 805 Main St. Anytown, America 77777	12 Lost Lane Somewhere, USA 66666 Date of Birth 1-25-56 SSN 888 88 8888	Sam's Gas & Oil Attendant
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2

PUBLIC RECORD (LEGAL ITEMS)

9-06 Judgment \$1000 Satisfied 3-07

3

COLLECTION ITEMS

7-05 Collection \$500

4

TRADE LINE (ACCOUNT) INFORMATION

Industry	Date Reported	Date Opened	High Credit	Balance	Current Rating	Historical Rating
Bankcard	6-08	3-89	\$5,000	\$0	Current	120+, 6 yrs ago
Auto loan	6-08	7-06	8,000	1,500	Current	
Retail	3-08	6-97	1,000	200	30 days	

5

INQUIRIES

Date	Industry	Date	Industry
7-01-08	Bank	6-01-08	Auto finance
6-15-08	Oil company	2-07-09	Retail

FICO[®] Score Predictive Information

Considered

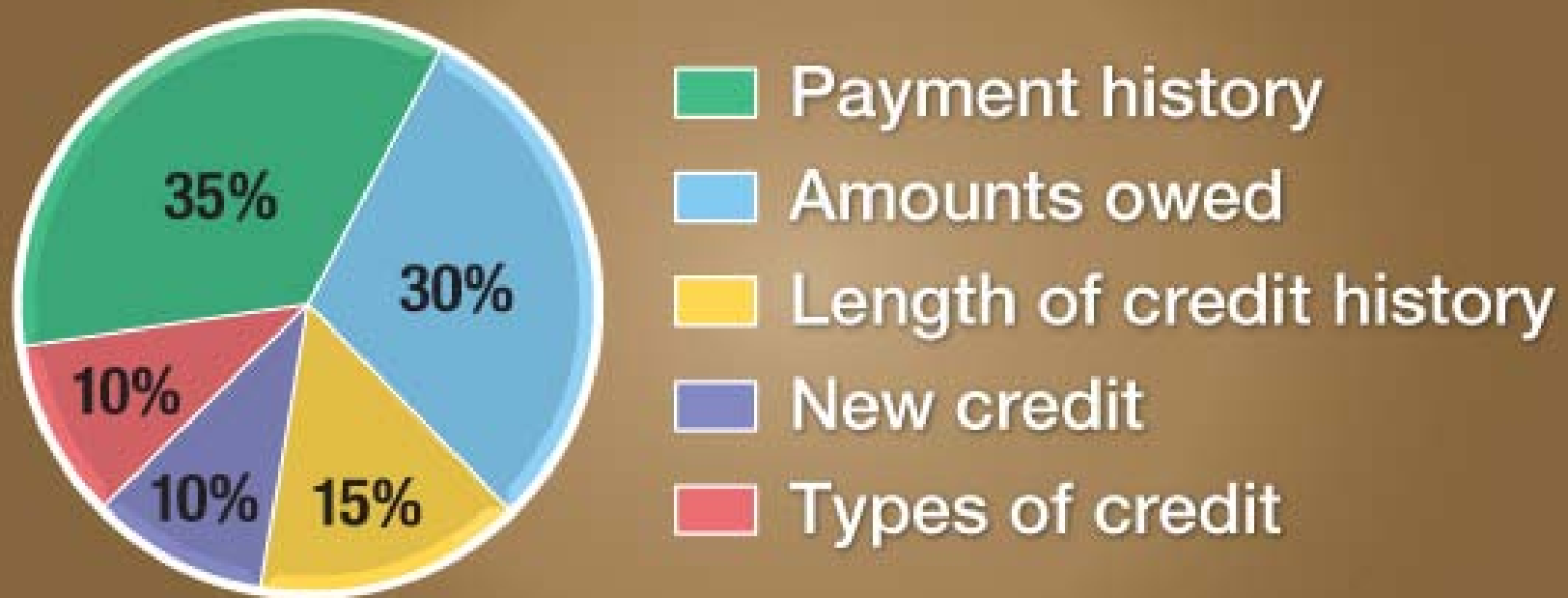
- Tradelines
- Inquiries
- Collections
- Public Records

Not Considered

- Age
- Address
- Employment
- Income
- Gender
- Race

What Drives One's FICO® Score?

FICO® Score Ingredients



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FICO[®] Score Influences Loan Rates

30-Year Fixed Rate Residential Mortgages

FICO [®] Score	APR	Monthly Payment
760-850	4.545%	\$1,528
700-759	4.767%	\$1,568
680-699	4.944%	\$1,600
660-679	5.158%	\$1,640
640-659	5.588%	\$1,720
620-639	6.134%	\$1,825

Interest rates accurate as of April 14, 2011

Source: [Informa Research Services](#)

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The Data Shows...

- Consumers with previous indications of not paying as agreed are more likely to demonstrate higher future risk
- Measured future risk (recent 12-month performance window) for several population segments of interest
- Consumers with negative mortgage information experienced future bad rates that are 6 to 17 times higher compared to consumers with no negative items on file

Population Segment	Description	Bad Rate Percentage
1	No mortgage, clean on other accounts	5.0%
2	No mortgage, has delinquency on other accounts	42.1%
3	Has mortgage, clean on mortgage, clean on all other accounts	2.9%
4	Has mortgage, clean on mortgage, delinquency on other accounts	18.9%
5	Has mortgage, delinquency on mortgage, delinquency on other accounts	49.6%
6	Has mortgage, delinquency on mortgage, clean on other accounts	17.5%

**Bad Rate = 90+ days past due on any credit obligation*

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Impact To FICO[®] Score

	Consumer A	Consumer B	Consumer C
Starting FICO [®] Score	~680	~720	~780
FICO [®] Score after these events:			
30 days late on mortgage	600-620	630-650	670-690
90 days late on mortgage	600-620	610-630	650-670
Short sale / deed-in-lieu / settlement (no deficiency balance)	610-630	605-625	655-675
Short sale (with deficiency balance)	575-595	570-590	620-640
Foreclosure	575-595	570-590	620-640
Bankruptcy	530-550	525-545	540-560

*Research was conducted on select consumer profiles; results may vary beyond what is displayed in the charts

Source: FICO[®] Banking Analytics Blog. ©2011 Fair Isaac Corporation



Estimated Time To Fully Recover

	Consumer A	Consumer B	Consumer C
Starting FICO® Score	~680	~720	~780
FICO® Score after these events:			
30 days late on mortgage	~9 months	~2.5 years	~3 years
90 days late on mortgage	~9 months	~3 years	~7 years
Short sale / deed-in-lieu / settlement (no deficiency balance)	~3 years	~7 years	~7 years
Short sale (with deficiency balance)	~3 years	~7 years	~7 years
Foreclosure	~3 years	~7 years	~7 years
Bankruptcy	~5 years	~7-10 years	~7-10 years

*Research was conducted on select consumer profiles; results may vary beyond what is displayed in the charts

Source: FICO® Banking Analytics Blog. ©2011 Fair Isaac Corporation

FICO[™] Over time, FICO[®] Scores Can Rebound

- Most delinquency and derogatory related items required to be purged after 7 years*
- As delinquency and derogatory information ages on the credit report, less points are lost for “recency related” characteristics (assumes no new late payments hit the file)
- Demonstration of other sound credit behaviors will help the score
 - Keep balances low
 - Make payments on time
 - Only apply for credit when needed

* Bankruptcies can remain on file for 10 years.

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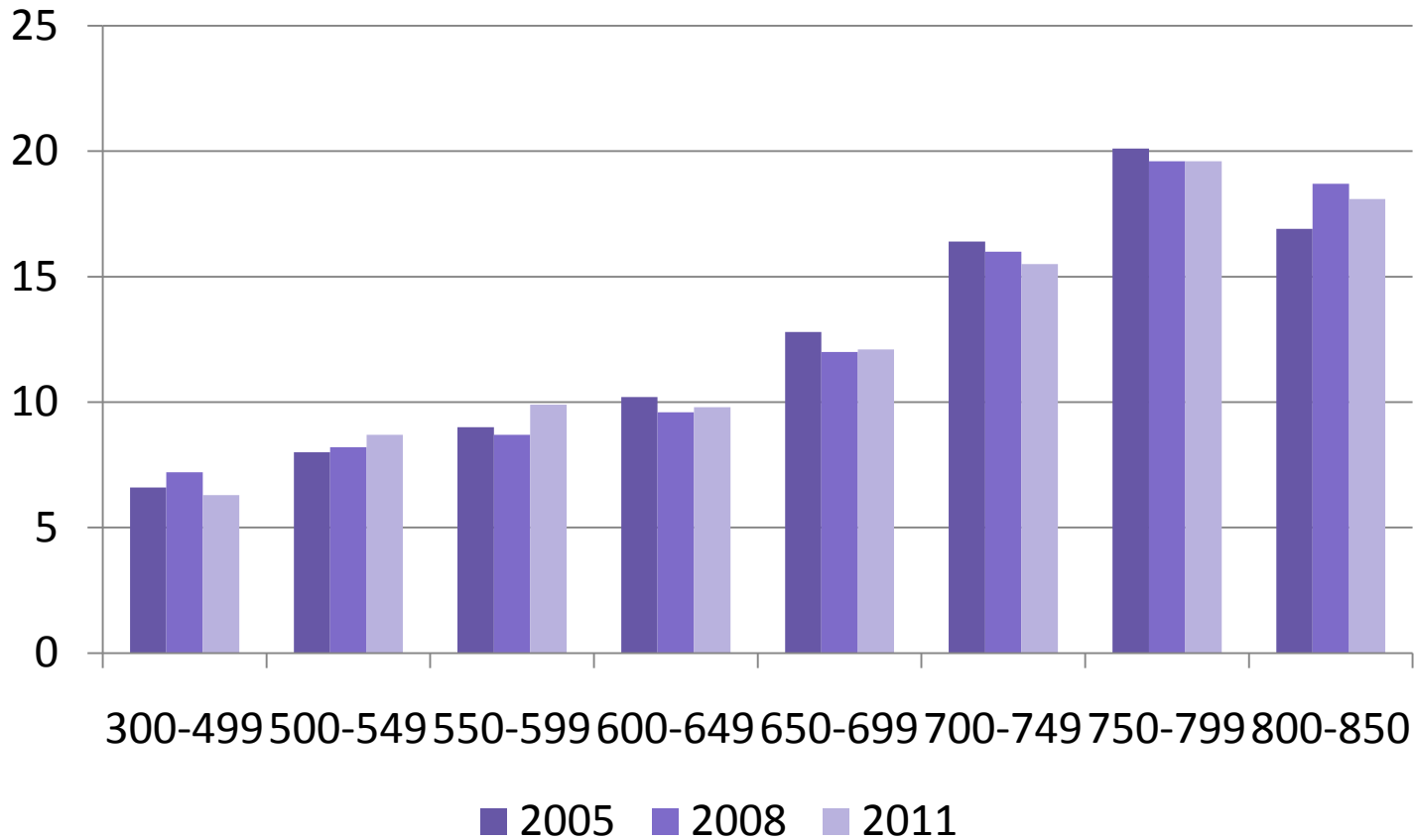
Summary Of Findings

- The magnitude of FICO[®] Score impacts is highly dependent on the starting score.
- There's no substantial difference in score impact between short sale, deed-in-lieu, settlement, and foreclosure.
- It could take up to 7-10 years to fully recover, assuming all other obligations are paid as agreed.
- In general, the higher the starting score, the longer it takes for the score to fully recover.
- Even if there is minimal difference in score impact between moderate and severe delinquencies, there may be significant difference in time required for the score to fully recover.



FICO® Scores Shift During Recession

FICO® Score Distribution



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Findings From FICO® Scoring Trends

- Early in the recession, we observed more low scoring consumers and more higher scoring consumers
 - The early impact of the recession pushed distressed consumers into lower ranges
 - As the recession began, responsible consumers retrenched their spending – paying down revolving debt and postponing new purchases
- Eventually, the recession impacts the highest scoring consumers
 - Fewer consumers have 800+ FICO scores in 2011 when compared to 2008

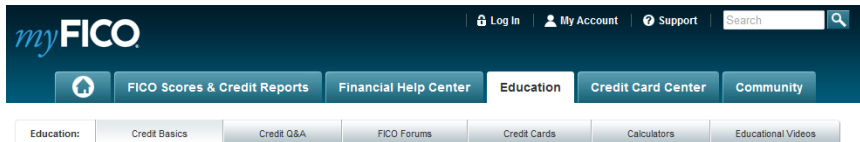
FICO® Score Resources

- Wealth of credit scoring information at www.myFICO.com and www.scoreinfo.org
- Consumer can also obtain their FICO® score, explanation and underlying credit report to understand their specific credit situation
- Other FICO credit educational brochures and learning aids available as well



[Understanding credit reports and scores](#) 789kb

This booklet helps you understand credit reports and the factors considered in FICO scoring.



Credit Basics

Credit Scores

What's in Your Score

What's Not in Your Score

How Scoring Helps You

Improving Your Score

Facts & Fallacies

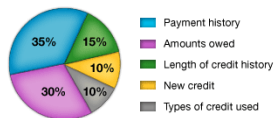
Credit Reports

What's in Your Report

Credit Inquiries

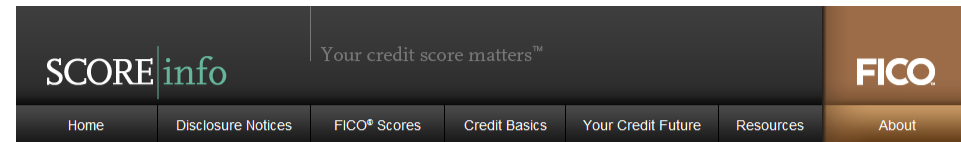
What's in your FICO® score

FICO Scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your FICO score.



Related Topics

- What's not in your FICO score?
- What are the minimum requirements for a FICO score?
- Do FICO scores change that much over time?
- Are closed accounts used in calculating utilization?
- Calculating average account age



How FICO® Scores Help You

FICO® Score Basics

What Your FICO® Score Means

FICO® Score Ingredients

FICO® Score Factors Guide

Establishing Your FICO® Score

Score Factors Guide

If your credit report includes a credit score, it will show up to five factors that are affecting your score. These same score factors are also included in the notice you might receive from a lender if your credit application is declined. It's important to take note of these items so you have a better idea of how you can improve your score in the future. These are some of the more common score factors and a brief explanation for each.

Reason	Full Description
Amount owed on accounts is too high	Your FICO® Score considers how much you owe on your credit accounts, such as revolving credit accounts and non-mortgage installment loans. Generally, the more you owe on these accounts, the greater risk you pose to lenders.

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The Realities of Consumer Financial, Credit & Foreclosure Recovery

By Joy Thormodsgard, President & CEO

SurePath Financial Solutions
Consumer Credit Counseling Services

CONSUMER CREDIT COUNSELING SERVICES

Knowing the Difference – Can Make All the Difference

- Member, National Foundation for Credit Counseling (NFCC)
- Member, Council on Accreditation for Families & Children
- Housing and Urban Development (HUD)
- Certified Counselors
- Executive Office of U.S. Trustees
- Providing one-on-one individual counseling with a comprehensive plan of action and financial literacy education
- 20,000 California households on debt, credit, housing/foreclosure
- Through debt management programs we have returned \$18 million per year for consumers.
- SurePath Financial Solutions, a nonprofit organization, provides caring, innovative solutions that educate and empower consumers to successfully handle immediate financial challenges and plan for their future.

Financial Literacy

Understanding Your Situation

© Randy Glasbergen / glasbergen.com



**“I found the problem. We earn money
5 days a week, but we spend
money 7 days a week!”**

Financial Literacy - Not a Laughing Matter!

NFCC Annual Financial Literacy Survey:

- 11 million adults say they carry \$10,000 or more in credit card debt
- Do not monitor their overall spending
- 65%, two thirds, have not ordered a copy of their free credit report in the past year
- 31%, one third, do not know their credit score
- 75% felt they would benefit from 1st time home buyer education

Credit Counseling & Local Education: How it's Supposed to Work

Local nonprofit organization with a volunteer board offering:

- Recovery services for debt, credit, housing or bankruptcy with a thorough, in-depth review of personal finances, resulting in a Money Action Plan (MAP)
- Debt Management Plans (DMPs) with creditor concessions and a single consolidated payment to pay debts in full.
- Community education and involvement

Indicators that People are in Trouble

Georgetown & Purdue Study:

- 60,000 households and 10 legitimate nonprofits
 - 55 point median reduction in bankruptcy risk score
 - 26 point median decrease in delinquency risk score
- Consumers who select in-person counseling have lower risk scores (higher chance of bankruptcy and delinquency (value of local service)).

Indicators that Counseling Works

- DMP clients have lower incidence of bankruptcy and delinquency over those offered the DMP but do not join
- Credit scores improved after DMP success and better money management skills were developed
- National Foreclosure Mitigation Counseling (NFMC) program clients are 60% more likely to avoid foreclosure and mortgage payments are reduced by almost \$6K per year
- Post counseling consumer knowledge on credit, debit, budget, time to pay debt, increases 80%. Knowledge of the home purchase and lending process increases 60%

Consumers Can't Tell the Difference and Become Easy Victims

1. DMP "Mills":

- Quick fix, high fees, cherry pick creditors, no education or counseling. FTC and IRS

2. Debt Settlement Companies:

- <http://www.gao.gov/products/GAO-10-593T>
- <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm>
- single digit success rate, Interest, fees, legal action while funds are in trust, predatory practices abound

3. Foreclosure Scams:

- take advance fees without meaningful assistance
<http://www.onguardonline.gov/articles/0002-common-online-scams>

4. Loan and Credit Repair scams with deep pockets for ads

Industry in Crisis

- Federal funds were insufficient and are now non-existent
- HUD restrictions on charging fees for foreclosure/rent assistance
- Divide between corporate credit card and mortgage divisions
- Declining fair share (creditor contributions): from 11% down to 4%. Creditors slashed fair share due to exploding DMP market and lack of due diligence
- Concessions are not deep enough to qualify or to be an alternative to bankruptcy
- 60 Month DMP required by the Federal Financial Institutions Examination Council is not feasible for most consumers...79.5% qualified in 2007, now only 34% do. Only 13% actually join

Holistic and Synergistic Tiered Approach to Financial, Credit and Housing Recovery

Immediate Needs

- Individualized In-Depth Financial & Credit Review with a Plan of Action
- Self-Sufficiency Calculator to determine other benefits

Stabilization

- Reduce debt, rebuild credit, financial literacy, education requirements
- Emergency Savings – California Saves
- Financial & Credit Coaching – consistent follow-up, tracking credit scores, finances, and behavior
- Encourage education and FICO Score Simulator

Building Assets


- Individual Development Accounts (IDAs), Ramp Up, Financial Roadmap for Goal Setting
- New Programs – Start Your Business Right

Tracking Changes

Financial Capacity & Financial Behavior

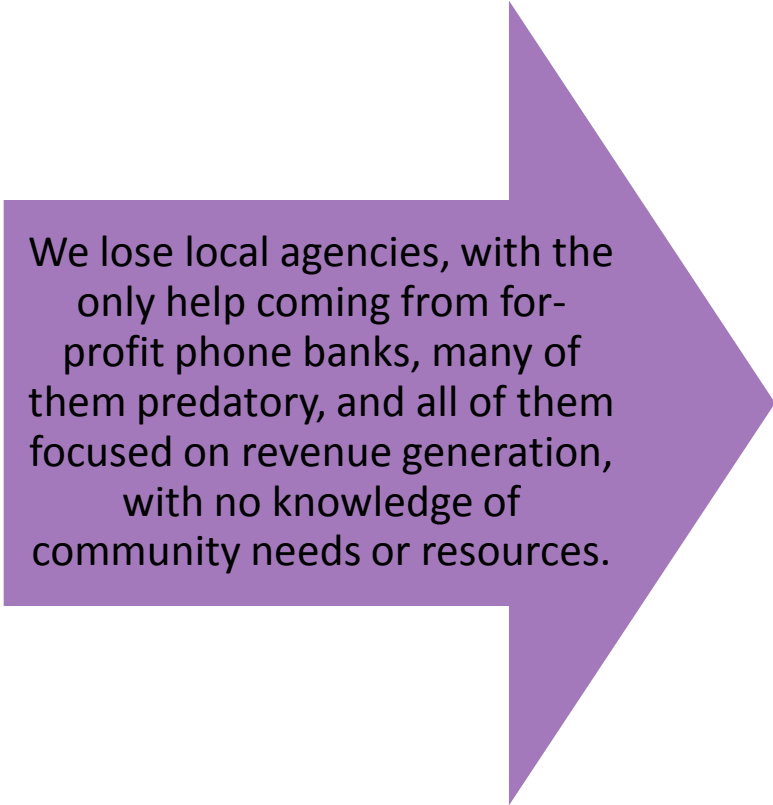
Question	Answer
Following budget?	64%; 24% no, 12% n/a
Why not?	14% finances worsened; 14% recommendations not realistic; 10% made other cutbacks; 43% situation improved; 19% other
Tracking expenses?	77% yes; 23% no
Situation improved?	44% yes, 12% no, 36% somewhat, 8% stayed same
Money management?	65% improved; 35% same
Join DMP?	24% yes; 76% no
Why not?	30% filing bankruptcy; 20% working with creditors; 20% situation needs to improve; 15% situation improved, no need; 15% N/A
Following steps?	88% yes; 12% no
Established savings?	47% yes; 53% no
Saving for?	80% emergency savings, 7% car, 0% retirement; 7% education, 7% house

The Ultimate Trade Off



We have local agencies with knowledge of community needs and resources who deliver quality, education, holistic counseling and referrals.

OR



We lose local agencies, with the only help coming from for-profit phone banks, many of them predatory, and all of them focused on revenue generation, with no knowledge of community needs or resources.



Financial Wellness Solutions
for Every Worker

*The Emerge Financial Wellness Resource Center®
FinancialFit® Coaching
Emergency Funds®*

Jonathan Harrison, CEO



Our Social Mission: Financial Resiliency for All Workers

- ☑ The only solution offering sub prime borrowers signature loans at responsible rates to help workers build credit and build savings
- ☑ Financial wellness solutions that help build worker resiliency during financial hardship and help workers make ends meet
- ☑ Certified annually by independent third parties

100% Turnkey Financial Wellness Solution

**Emergency Funds©
as Low as 9.9% APR;
97% of Workforce
Eligible**

- Next-day Emerge loans up to \$2,500.00
- 8 month payroll deduction/DD repayments –signature loans
- No credit-check \$500 Freedom loans

**The Emerge
Financial Wellness
Resource Center©**

- Monthly newsletters & program awareness
- Best-in-class online resources
 - Educational games, podcasts, videos, classes, and calculators
 - Customized lesson plans

**FinancialFit©
Certified Coaching
and Crisis
Counseling**

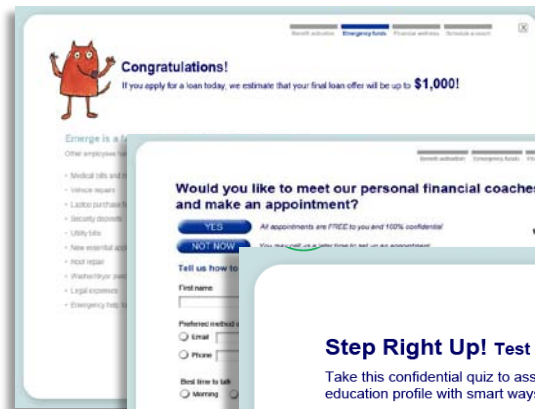
- 1-800 crisis phone support with optional 24/7 coverage
- Unlimited one-on-one consultations

Financial Institutions & Distribution

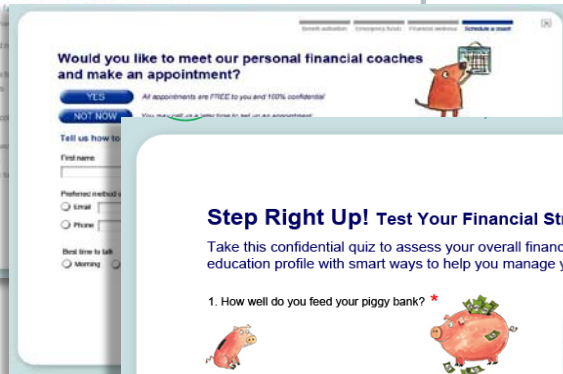
- Lending Platform – 50 state coverage
- 5 financial institutions live and lending and expanding!
- Selling as Benefit Direct to Employers –100+ employees
 - Key industries- health care, hospitality, service, labor unions, gaming, specialty retail, distribution
- Large distribution channel partners
 - Third Party Administrators (TPAs), insurance carriers, brokers, and Discount Medical Plan Organizations (DMPOs)



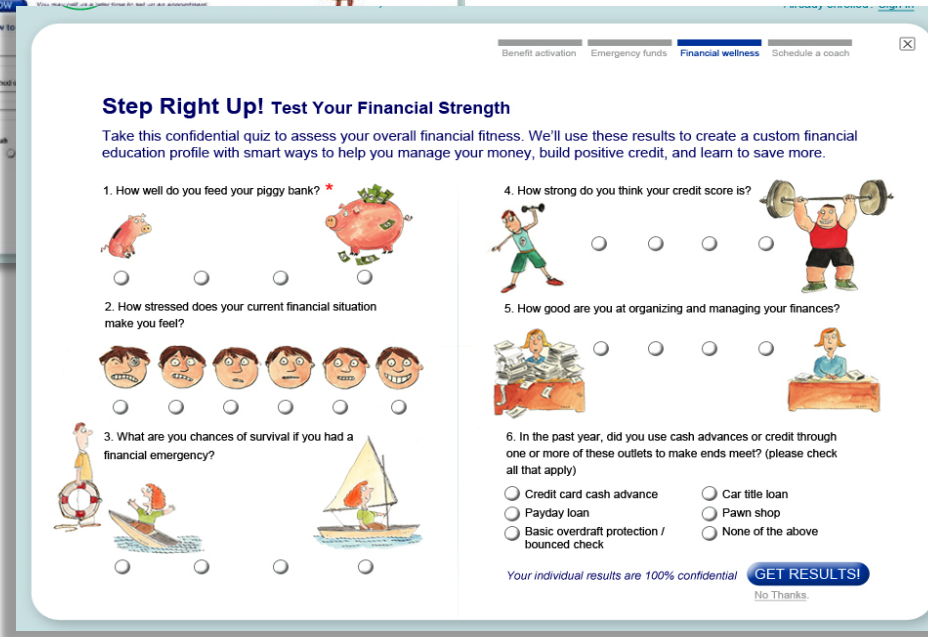
Benefit Activation results in high utilization and behavior change



Financial Wellness Newsletter Sign-up



Schedule a Financial Coach



Assess Financial Wellness & Check Funds Eligibility

Demo the four-minute benefit activation process at:
www.emergebenefit.com/Enrollment

Comprehensive Reports of Employee Financial Wellness

Helps leadership understand the current status of your employees' financial health, and demonstrates program effectiveness over time.

- *Saving Habits*
- *Financial Stress Levels*
- *Financial Emergency Preparedness*
- *Credit Repair Needs*
- *Financial Sophistication*
- *Organizational Skills*
- *Predatory Lending Usage*
- *Overall Financial Knowledge*



Emerge Helps Employees Meet Critical, Immediate Cash Needs



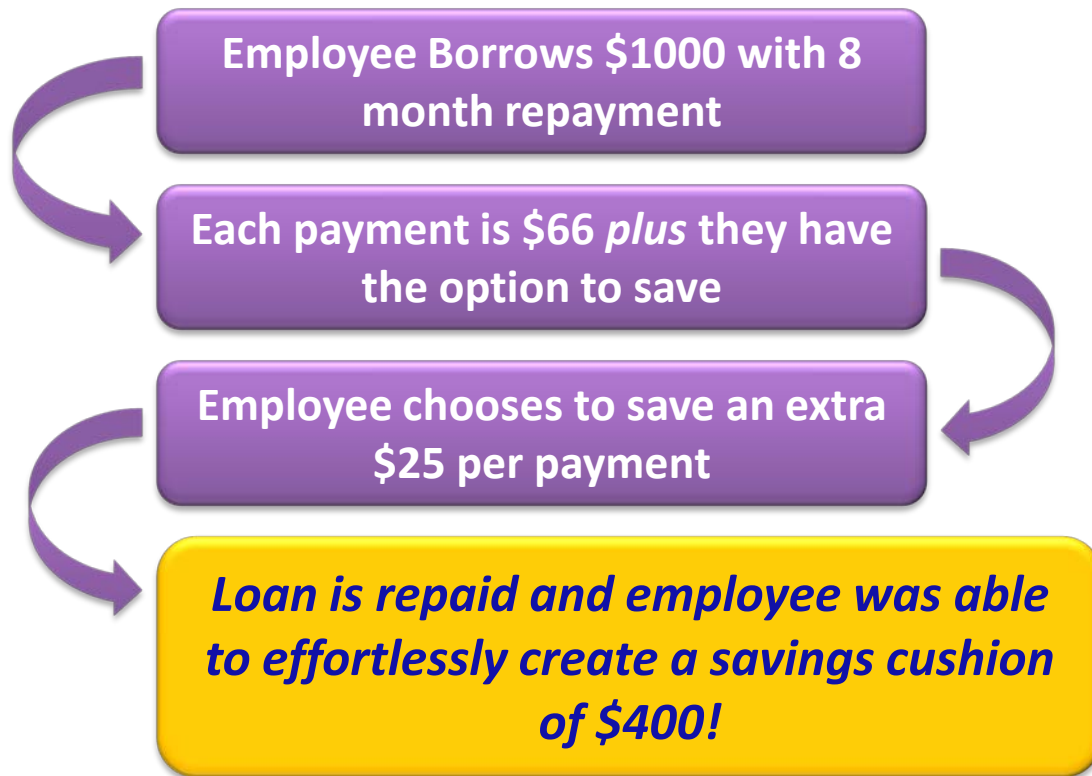
Emerge helps employees deal with emergency costs responsibly with no employer financial risk.



- Encourages savings habits and direct deposit
- Builds financial resiliency and credit scores up to 60 points






Bank-level Secure Site | Rapid Funding | FDIC Insured Lenders

“Save While You Repay” Feature Makes it Easy to Save



The Emerge Financial Wellness Program gives employees access to better financial products and services so they can increase savings habits and improve financial resiliency.

Emerge vs. Short-term Loan Alternatives

Short Term Loan Options		Avg. APR	Builds Credit	Responsible Lender
 emerge	Personal	9 -19.99%	✓	✓
	Overdraft Protection	up to \$32.00 each use	✗	✗
	Payday	400% +	✗	✗
	Car Title	200% +	✗	✗
	Pawn Shop	180% +	✗	✗

Best-in-Class Financial Coaching and Crisis Counseling

- Unlimited one-on-one financial coaching
- 24/7 certified crisis counseling services – schedule online or use 800 crisis number
- Topics include debt management, credit counseling, household budgeting, and more

Employees select a counselor and request an appointment time

Would you like to meet our personal financial coaches and make an appointment?

- YES** *All appointments are FREE to you and 100% confidential*
- NOT NOW** *You may call us a later time to set up an appointment*







Tell us how to best contact you and we'll be in touch to schedule your financial coaching.

First name

Preferred method of communication
 Email
 Phone

Best time to talk
 Morning Afternoon Evening

Who would you like to speak to? Make an appointment with:

-  Steve G.  David Z.
-  Courtney M.  Christine T.
- No preference, please select a coach for me

SCHEDULE ME!

All appointments are FREE to you and completely confidential.

No Thanks. You may call us at a later time to speak with a counselor.



The Emerge Financial Wellness Resource Center

An exclusive partnership with
**The National Institute of
Financial Education**



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- Maximizing Financial Fulfillment
- Compound Interest
- Mortgage Refinancing
- Budget Planning
- Managing Taxes
- Insurance Plans
- Opportunity Costs
- Savings
- Loan Repayment
- Understanding Credit Scores and Reports
- Managing and Improving Credit
- Using Credit to Your Advantage
- Improving Financial Habits
- Saving and Budgeting
- Dangers of Alternative Lending Sources
- Utilizing Low Interest Alternative Products and Practices

Emerge Financial Wellness at Work: Hospital Group

Salary Level : \$

Cafeteria Worker

Annual Salary \$23,000

Used Emergency funds to repair car; significantly reduced commute time to work.

Salary Level : \$\$

Office Admin

Annual Salary \$34,000

Paid off medical bills; saved almost \$400 in fees and improved her credit score 60 points with positive repayments.

Salary Level : \$\$\$

Registered Nurse

Annual Salary \$52,000

Made critical home repairs and opted into our automatic savings plan, creating her own emergency cash reserve.

QUESTIONS

QUESTIONS

Contacts

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- **FICO**
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- **SurePath Credit Counseling**
Joy Thormodsgard (joyt@surepath.org)
- **Emerge**
Jonathan Harrison (jonathan@emergeloan.com)

WRAP UP/CLOSING

Thank you to today's presenters and to all participants for joining this session!

All session materials are available on our website and we will be posting an audio file of today's session in just a few hours.

Additional Federal Reserve System resources related to this topic can be found on our website along with links to your local Federal Reserve Community Development office.

If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us.

• communities@stlouisfed.org

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• www.stlouisfed.org/connectingcommunities

Thank you!

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