

HFA: Kentucky Housing Corporation
Entry Name: Finding Opportunities in Challenging Times: Kentucky Homeownership
Protection Center
Management Innovation: Financial Management

A Perfect Storm

In December 2007, Kentucky Housing Corporation (KHC) was utilizing a third-party contractor to provide loss mitigation services on behalf of its Loan Servicing Department to a slowly increasing number of KHC mortgage defaults. Along with the demand, the cost for this service began increasing and reached an all-time high of \$400,000 a year.

In spite of KHC's best efforts, KHC borrowers continued to default on their newly executed loan modifications, and delinquencies for all mortgagees began to rise. KHC began to receive requests for assistance from both KHC and non-KHC borrowers.

KHC and partner agencies needed technical assistance and training to manage and provide services to this influx of clients who were now facing imminent foreclosure. The delinquency and foreclosure epidemic had reached Kentucky.

Due to the downturn in the economy, the demand for new loans was waning. Because of the decrease in new loans and increase in demand for foreclosure intervention, KHC had underutilized loan production staff and a need for trained foreclosure intervention, loss mitigation, and counseling staff.

Nationally, NeighborWorks America was unfolding its first foreclosure intervention and default counseling training. In Kentucky, legislators were enacting House Bill 552 that established the Kentucky Homeownership Protection Center (Protection Center) to provide counseling to delinquent and defaulting homeowners. The bill mandated that KHC administer the unfunded Protection Center initiative. KHC had to develop a solution to meet the demands posed by all of these factors.

Opportunities

The challenges were great and so were the opportunities.

- KHC utilized internal staff to develop a Web site with the capability to accept self-referrals from homeowners requesting assistance and more information with their mortgages.
- An 800-number that had previously been used to offer help with predatory lending was rededicated as the Kentucky Homeownership Protection Center hotline where distressed borrowers could directly contact and talk to a staff member.
- KHC coordinated with NeighborWorks for staff to travel to Kentucky to train agencies in the foreclosure intervention process. The manager of KHC's Homeownership Education and Counseling Department, which would house the Protection Center, was a NeighborWorks America faculty member who also provided foreclosure intervention and counseling training to both KHC and partner agency staff.
- In the spring of 2009, underutilized loan production staff were transferred to the Protection Center and were trained to provide initial foreclosure intervention counseling.
- KHC applied for and received \$1.7 million through National Foreclosure and Mitigation Counseling funds offered by NeighborWorks America to HUD-approved agencies to provide the services that KHC had trained its staff and partnering agencies to provide.

- KHC brought loss mitigation for KHC clients in-house and terminated the contract with the third-party vendor.

Results/Accomplishments

- By reassigning staff from loan production to the Protection Center, KHC was able to retain employees and not lay off staff due to the lack of loan production.
- Utilizing internal staff to provide training to other internal staff and partnering agencies, KHC was able to save money and quickly create a network of trained counselors to assist Kentuckians.
- A total of 3,200 KHC loans have been reviewed for loss mitigation. Of this total, 1,367 cases have been resolved. Forbearances have been given to 1,151 borrowers who were unemployed; suffered an illness, divorce, or reduction of income; or had other special circumstances worthy of consideration. In addition, 272 loan modifications have been recommended.
- The Protection Center has provided services to 9,077 Kentuckians who otherwise may not have received services or may have fallen prey to unscrupulous loan modification scammers or so-called loss mitigation experts that would have swindled hundreds of thousands of dollars from them.

While the public may view the foreclosure crisis as the fault of homeowners “biting off more than they can chew,” it is interesting to note that the average mortgage amount for clients – both KHC and non-KHC mortgages – served through the Protection Center was slightly over \$100,000. This number is a testament that this program is serving the neediest of Kentuckians.

Even though the Protection Center began with no funding and limited staffing, KHC persevered knowing that challenges create opportunities. Through careful evaluation and usage of existing resources, KHC was able to create a successful program that helps Kentuckians.