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Comparing Foreclosure Counseling Policies in the US and UK

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ABSTRACT *This article reviews recent developments in the US and UK in response to rising foreclosures, with an emphasis on the provision of advice or counseling to borrowers in mortgage default. Both nations have increased support for counseling programs despite the lack of evidence that counseling is effective. Based on a quantitative study in the US and a qualitative study in the UK, this article provides preliminary evidence that counseling strategies may be justified. However, the findings from both studies should be approached conservatively. This article also highlights the need for a range of outcome measures for assessing the impact of debt counseling. These studies shed greater light on the ways in which counseling might be beneficial beyond loan cures. Contextual differences between the two countries are identified, and common themes in their policy responses are noted. This article suggests that further insights may be developed through stronger comparative approaches in the analysis of foreclosure prevention policies.*

Introduction

This article focuses on the growing problem of mortgage foreclosures in the US and UK, the provision of debt counseling services as a policy response, and the evaluation of the impact of these services. The terminology in the US and the UK is different on a number of points. In the UK, foreclosures are called repossessions. What is described as debt counseling in the US is referred to as debt advice or money advice in the UK. Since the US terminology is more widely used and recognized, we use the US terminology, except in direct discussions of the UK.

Issues of credit and debt are of immense contemporary importance, as they encompass events ranging from government rescues of banks to rising levels of personal indebtedness. One particular development in the US and UK is the increasing number of households facing foreclosure. The problem of household foreclosure is greater in the UK than in other European nations, and the number of foreclosures has peaked in the US. In percentage terms, only a small proportion of mortgages face foreclosure. However, in absolute terms large numbers of households

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are affected as the number of foreclosures has increased rapidly. According to the US National Delinquency Study released by the Mortgage Bankers Association in September 2008, 2.75 per cent of all mortgage loans (approximately 1.8 million households) were in some stage of the foreclosure process, an increase of more than 50 per cent in just over a year. In the UK during September 2008, 1.44 per cent of mortgages (168,000 households) were in arrears of three months or more, representing a 39 per cent increase from the first half of 2007 (Council of Mortgage Lenders 2007). In December 2008, the Council of Mortgage Lenders forecast that in 2009 the number of households with mortgage arrears greater than three months may reach half a million in the UK (Council of Mortgage Lenders 2008).¹

There are a number of reasons why foreclosure can be viewed as a major problem that requires a public policy response (see Collins 2007). For individuals, the sale of a home often does not generate enough income to pay off unpaid principal and the related costs of foreclosure. There is also long-term damage to the person's credit record. In addition to financial losses, foreclosure is linked to a host of personal and psychological impacts (for a discussion about the relationship between debt and health problems see Balmer *et al.* 2005, Pleasence *et al.* 2008). For lenders, the foreclosure process takes 12 to 18 months to resolve, which ties up human resources and lender assets. According to Cutts and Green (2005), lenders lose an average of \$44,000 to \$58,000 (£32,000–42,000) per completed foreclosure. Local communities also face significant costs. Homes in the foreclosure process may be left vacant, thereby providing a place for crime or other problems in the neighborhood (Immergluck and Smith 2006). Estimates of the losses to local municipalities range from \$400 to \$34,000 (£286–24,000) per foreclosure, depending on the condition of the home (Apgar and Duda 2005). The same issues apply in the UK. It has been estimated that the average cost per debt problem to the public, including the lost economic output of individuals, is over £1,000 (\$1,400), with more serious problems such as foreclosure costing many times this amount (Pleasence *et al.* 2007).

In the US and UK, the rise in foreclosures has triggered considerable media attention and an array of public policy responses. One key policy response in both countries is the provision of debt counseling. While there is no unanimously agreed upon definition of what constitutes debt counseling (Pleasence *et al.* 2007), debt counseling is generally comprised of services that provide information, advice and guidance to individuals dealing with debt problems. Because debt counseling deals with problems after they have arisen, there is an important distinction between debt counseling and pre-mortgage counseling (see below in relation to the US). Debt counseling is also a distinct piece of broader financial capability/education agendas (in the UK there is a growing literature on financial literacy e.g. Financial Literacy and Education Commission 2006, Financial Services Authority 2006). Debt counseling can be provided by for-profit or not-for-profit organizations and can provide different levels of service, ranging from the simple provision of information to the representation of debtors in negotiations with lenders. It can also be delivered through different models including self-help approaches, telephone support or face-to-face counseling. Our focus in this article is the provision of debt counseling free of charge by not-for-profit agencies, based on a broad methodology of maximizing income through checking entitlement to welfare benefits, tax credits and other benefits; developing a financial statement that lists all expenditures and sources of

income; identifying surplus income for debt repayment; prioritizing debts; and then negotiating repayments with lenders. Our definition of debt counseling can therefore be summarized as *services provided by third-party, non-profit counseling agencies that help borrowers engage with their lender in an effort to work through their financial problems*. This context is specific to borrowers in debt who are having trouble with repayment, rather than preventative services. Remarkably little is known about the impact of debt counseling services in any context, especially in relation to mortgage default and repossession. There is very limited literature with which to engage and draw upon. Consequently, this article explores whether developing a comparative approach to research in the US and the UK can provide a greater understanding of the provision of debt counseling in an effort to curb foreclosures.

The article is comprised of four sections. First, the article provides an overview of foreclosure processes in the US and UK. Second, consideration is given to policy responses to the problem of increasing levels of foreclosure, including the provision of debt counseling services. Third, the impact of debt counseling is examined. Fourth, findings from new research by the authors investigating the impact of debt counseling are presented.² The US study employs a quasi-experimental approach – propensity score matching – in which 25,695 borrowers who were at least 60 days behind on their mortgage received letters suggesting the borrower call a non-profit counseling agency (888-HOPE) unaffiliated with their lender. A separate group of 6,285 borrowers received a letter suggesting the borrower call a toll-free telephone number for their mortgage loan servicer. The research from the UK is qualitative and is based on in-depth interviews of 59 people who received debt counseling, with the aim of identifying key themes in what counseling recipients see as critical in service provision and the impact of debt counseling. The article concludes by synthesizing the key messages from this research.

Mortgage Foreclosures

When consumers take out a mortgage to finance the purchase of a property, they enter into a contract to make payments under specific terms. A feature of mortgage lending in both the US and UK over the last decade has been a move away from what could be viewed as conventional lending standards towards what have been traditionally considered high-risk lending practices. The movement away from rigorous rule-based loan underwriting opened up the market to a wider variety of loan types, including loans based on little or no documentation of income, adjustable interest rates and variable payments, and allowed for greater discretion in loan approvals. The market for mortgages in both countries was marked by diversity rather than by norms. Irrespective of the nature of specific mortgage agreements, when a borrower fails to make timely payments, the contract is violated and the loan is in default (mortgage insurance is available in both countries but is not required). The borrower remains in default until the loan is brought up to date or an arrangement is made with the lender regarding payment and the terms of resolving the delinquency. While these general points apply in both the US and UK, there are several significant differences between the foreclosure processes in the two countries.

In the US, depending on the state and the borrower's circumstances, when a loan is in default lenders may initiate the foreclosure process. For lenders, the goal of the

foreclosure process is using the home's value to pay off the remaining mortgage amount. The foreclosure process varies by state, but borrowers generally have at least 60 days from their first missed payment to take corrective action and avoid the start of foreclosure proceedings. The foreclosure process concludes when the borrower pays off the loan, the borrower signs the home over to the lender, or the property is sold at a foreclosure auction. Lenders typically offer several options to borrowers before initiating the foreclosure process. These options include a "forbearance" or a similar type of a repayment plan in which past due amounts are simply deferred to the future. A more formal change is a "loan modification" in which the rate, term and even principal of the loan are renegotiated in the mortgage contract. The former is a more temporary change while the latter is longer term. There are significant variations in the protections that state laws provide to borrowers facing foreclosure. One important factor is whether foreclosure is carried out through a judicial or non-judicial process. In 20 of the 50 states, the judicial process is the only option, and all foreclosures in these states must proceed through the courts.³

In the UK, the repossession process is simpler because it is a national system with no substantive local variations. The process in the UK proceeds through a formal judicial process. Thus, while lenders in the UK generally offer the same options as lenders in the US, if the problem is not resolved, then the lender must pursue a judicial route. The judicial process is based on the lender seeking possession of the debtor's home. While the court can grant immediate possession to the lender, the most common outcome of the judicial process is a "suspended possession order." Under such an order, the debtor makes a proposal to the court to repay arrears over a stated period of time. If the court considers this proposal acceptable, irrespective of the lender's willingness to accept the offer, possession of the property is granted to the lender but with the order suspended as long as payments are made. No further action can be taken by the lender unless the debtor misses a payment.

As already noted, the rapid increase in foreclosures has triggered considerable attention and policy responses. We will now discuss public policy responses in the US and UK, focusing on the importance of debt counseling.

Policy Responses

There are a number of common themes in the policy responses to foreclosure in both countries. Beginning with the UK, during 2008 there were a series of policy announcements aimed at reducing the number of repossessions. Four major initiatives include: (1) the Support for Mortgage Interest scheme, which amended the welfare benefits system to provide improved support to homebuyers with mortgages who lose their jobs (<http://www.communities.gov.uk/housing/strategiesandreviews/housingpackage/>); (2) the Homeowner Mortgage Support Scheme, which provides 'mortgage holidays' to homebuyers who suffer a temporary loss in income that they are expected to recover at a later date (<http://www.communities.gov.uk/housing/buyingselling/mortgagesupportscheme/>); (3) the Mortgage Rescue Scheme, which enables homeowners facing repossession to remain in their home through a shared equity scheme in which a Registered Social Landlord (RSL) provides an equity loan to reduce the householder's mortgage repayments; and a related program, (4) the Government Mortgage to Rent Scheme, whereby the RSL

will clear the secured debt completely, and the applicant will then become a rent-paying tenant of the RSL (both are cited at <http://www.communities.gov.uk/housing/buyingselling/mortgagerescuemeasures>).

In September 2008, the UK government announced a series of measures that were heralded as a 'Billion pound package for housing' (<http://www.communities.gov.uk/housing/strategiesandreviews/housingpackage>). Nonetheless, the vast majority of these measures consisted of bringing forth previously planned housing and regeneration programs, including the policies listed above.

In March 2009, the US federal government launched the Homeowner Affordability and Stability Plan (HASP), which contains some similar provisions to the UK's policies. The HASP includes two major programs: (1) the refinancing of loans with up to 5 per cent negative equity if the loans are held by government-sponsored secondary market institutions and (2) the Housing Stability Plan to modify loans held by private lenders to lower monthly payments, which includes government subsidies to servicers. Prior to the federal plan, 19 US states launched foreclosure prevention initiatives. These state-level policies include promoting loan workouts and implementing special loan or grant programs that help borrowers bring their loan up to date. Several states and localities also started third-party mortgage mediation programs to encourage lenders and borrowers to seek alternatives to foreclosure outside of the court system. In 2008, the US created a Federal Housing Administration (FHA) insured loan called Hope for Homeowners, which refinances troubled loans with negative equity. Despite the intent of the legislation, Hope for Homeowners has affected few homeowners. In the US, there are no public or not-for-profit property owners that take on properties facing foreclosure and rent them back to former owners as tenants. Not-for-profit community development corporations are the closest approximation to the RSL structure. While these agencies have experience in providing rental housing to low-income households, they typically do not offer scattered site single family homes. In both countries, there are private sector companies that buy homes and then allow the seller to live as a tenant. However, there have been reports of investors convincing borrowers in default to sign over the deed to a private entity with the promise of continued tenure as a renter, only to be evicted (OCC 2008).

A right of redemption is available in 22 states in the US but is unavailable in the UK. A right of redemption allows homeowners facing foreclosure to regain their property. Depending on the state, homeowners can redeem their property for the foreclosure sale price plus foreclosure expenses up to a year after the foreclosure. In practice, borrowers rarely exercise statutory rights of redemption, especially markets with weak home values. However, the right of redemption adds to the costs of foreclosure for lenders and provides an incentive to offer alternatives to foreclosure.

While it might appear that the programs listed above represent a significant response to the rising level of foreclosures, the extent of the policy response is questionable. For example, in the UK the Mortgage Rescue Scheme applies only in some local areas, and it is estimated that this program will help just 6,000 households over two years (<http://www.communities.gov.uk/housing/buyingselling/mortgagerescuemeasures>). Both the Support for Mortgage Interest Scheme and the Homeowner Mortgage Support Scheme are based on such complex qualifying rules that the extent to which they will provide additional support remains doubtful. This

parallels the US experience with the FHA's Hope for Homeowners program. Congress made the terms strict to prevent the appearance of abuse. The terms include a requirement that 50 per cent of any future gain in the home's value goes to the government. The stringency of the program's terms reduces incentives for its use. It remains to be seen whether the US HASP program proves more successful.

Within these various policy developments, one response has remained consistent in both countries and is of increasing importance: the provision of debt counseling.

The Provision of Debt Counseling Services

There are strong parallels between the US and UK with regard to the provision of debt counseling in response to the problem of foreclosures, and with regard to the limited knowledge relating to such services. In general, non-profit financial counselors bring a trusted third-party perspective and can serve as an intermediary between borrowers in crisis and their lenders (Quercia *et al.* 2004). A 2005 poll by Freddie Mac and Roper Public Affairs and Media suggests that three-quarters of delinquent borrowers would like to use the services of a counseling agency if they default (Roper 2005).

To bolster debt counseling services, the US federal government provided \$50 million (£36 million) for all types of housing counseling in 2008, an increase from \$20 million in 2001 (Herbert *et al.* 2008). Approximately 1,800 non-profit agencies receive these funds to support their counseling programs. In turn, these agencies served over 1.7 million individuals in 2007. About 25 per cent of clients served were renters seeking apartments, 20 per cent were first-time homebuyers and 16 per cent were seeking default counseling. The number of foreclosure clients increased by nearly 50 per cent from 2006 to 2007 (Herbert *et al.* 2008). In 2008, the US Congress allocated \$360 million (£260 million) in additional funds to address foreclosure issues (http://www.huduser.org/Publications/PDF/hsg_counsel.pdf). The US Department of Housing and Urban Development (HUD) has historically only promoted counseling in face-to-face settings. While the demand for debt counseling has increased, HUD has supported alternative counseling formats, including telephone counseling. Telephone counseling offers greater convenience, does not require transportation, and provides for greater anonymity (Herbert *et al.* 2008). Studies of telephone services for more general legal advice (e.g. Pearson and Davis 2002) have found that this delivery method may not be suitable for particularly complex issues or for certain types of clients including those with low educational achievement.

Turning to the UK, we see the same theme of increased funding for the provision of debt advice. In November 2008, the UK government announced that "a further £15.85 million (\$22 million) to extend free debt advice [is] to be made available to all consumers across the country" (<http://www.communities.gov.uk/news/corporate/1071959>). This announcement built upon the expansion of the debt advice sector that began in 2004. This expansion was located in the government's social inclusion agenda. One area of concern in relation to poverty was indebtedness. This led the government to launch an action plan for tackling (over) indebtedness in 2004 (Department of Trade and Industry 2004). This marked the identification of debt as a specific social problem that requires policy action. The action plan was updated annually through 2007 (the 2008 edition has been delayed due to the rapidly

changing policy context), and the importance of debt advice has remained a consistent theme. The 2007 report states, “Free and impartial debt advice is a vital safety net for many vulnerable consumers, improving their ability to manage financial commitments and stave off far more costly consequences” (Department for Business, Enterprise and Regulatory Reform 2007: 62). In the initial 2004 action plan on indebtedness, £45 million (\$63 million) was allocated to increase the supply of free face-to-face debt advice, and support has continued to increase. Another source of support for the provision of debt advice has been the Financial Inclusion Fund, which is part of a “promoting financial inclusion” initiative aiming to improve access to banking services, affordable credit and debt advice (see HM Treasury 2004). The Financial Inclusion Fund has supported activities such as the provision of pilot outreach schemes (see below). Unpacking different spending announcements is complex, but approximately £80 million (\$112 million) is committed by the government to increase debt advice capacity through 2011 (Department for Business, Enterprise and Regulatory Reform 2007). As in the US, support is provided both for face-to-face and telephone services.

Given these fiscal commitments, it is particularly striking how little is known about the impact of counseling. Both nations are expanding access to counseling and advice services based on an apparent belief, rather than empirical evidence, that counseling will improve financial behavior. Given the costs and complexities of monetary grants and loan restructuring, there is also the practical advantage that counseling is a tangible and immediate program policy makers can highlight as a response to the foreclosure problem. However, the evaluation of debt counseling has garnered relatively little attention, a point to which we now turn.

Evaluating the Impact of Debt Counseling

Despite the expansion of debt counseling and advice, there is little previous research into the impact of debt counseling. In the US, there is a general literature on mortgage counseling dating back to the late 1960s, during which time the FHA mortgage insurance program struggled to manage defaults (Quercia and Wachter 1996). However, the most relevant prior study was conducted by Ding *et al.* (2008). Their study examines the association between telephone counseling and the likelihood of curing a default among low-income borrowers. Specifically, the study examines outcomes for roughly 3,000 borrowers at least 60 days delinquent, of which nearly 1,000 were notified by their lender that they would be contacted by a non-profit counseling agency. The counseling agency then attempted to contact borrowers by telephone to offer assistance and advice about the best ways to work with their lender to resolve the situation. The study finds that the receipt of counseling is associated with a higher likelihood of curing a default. Although the study is not a true experiment, the authors use a model to account for borrowers’ self-selection to receive counseling. Using a two-stage selection model to address the problem that more motivated borrowers would also be more likely to accept the counseling offer, the authors estimate the odds of curing the defaulted loan (that is getting caught up on payments) were 50 per cent higher for borrowers who accepted and received counseling than for non-counseled borrowers. The authors note that the results may be affected by lender practices that dropped 10 per cent of the

observations from the dataset, as well as selection effects not included in the statistical model. Nevertheless, the results are associated with positive effects on loan outcomes.

Quercia and Cowan (2008) examine the Mortgage Foreclosure Prevention Program (MFPP) in Minneapolis. The MFPP provides case management, post-purchase counseling and/or assistance loans. The dataset was comprised of 4,274 households which received intensive services from the program, including financial assistance and counseling services. For each additional hour the program spent on the case, clients' odds of avoiding foreclosure increased by 10 per cent. A client receiving eight hours of services had more than double the odds of avoiding foreclosure compared to a client receiving less than one hour of services. This study did not control for the problem of clients selecting into services by number of hours, however. Also, clients in this study received more than counseling services, which may explain the positive outcomes.

Cutts and Merrill (2008) present information on telephone-based counseling services offered to borrowers who were at least 60 days delinquent, but the authors do not estimate the impact of counseling on curing defaults. Multiple studies have examined the association between pre-purchase counseling and the subsequent incidence of mortgage delinquency. For example, Hira and Zorn (2001) analyzed the association between pre-purchase counseling and the incidence of 90-day delinquency among nearly 40,000 loans originated between 1993 and 1998. After controlling for a variety of borrower, loan and property characteristics, counseling was associated with a reduced risk of delinquency, although like Ding *et al.* (2008) the data had self-selection problems. One notable study of credit-related counseling, but not of mortgage default counseling, was conducted by Eliehausen *et al.* (2007), who focused on the clients of five consumer credit counseling organizations. A comparison group was constructed by identifying individuals residing in the same geographic area and having credit scores in the same range as those receiving counseling. Counseling is associated with increases in credit scores and with reductions in debt levels and the incidence of missed payments.

Evaluation of Debt Advice in the UK

There is a similar lack of research on the outcomes of debt advice in the UK. The 1980s and early 1990s saw a growing literature on debt. Debt became the focus of greater policy and academic attention for a variety of reasons including the effects of economic recession and restructuring, increasing levels of poverty, increasing credit use and shifts away from rental to owner-occupied housing (e.g. Ford 1988). The studies about debt included the only specific survey of credit and debt in the UK that has ever been undertaken (Berthoud and Kempson 1992) and a wide range of investigations of particular types of debt, e.g. fuel debt (Rowlingson and Kempson 1993) and water debt (Herbert and Kempson 1995). This growing body of work included only one reference to debt counseling, and this single reference is a rather descriptive account (Hinton and Berthoud 1988). The literature on debt has continued to grow, focusing on debt in relation to different demographic groups (e.g. Fawcett Society 2007) or more generic accounts of the causes of debt (e.g. Kempson *et al.* 2004). Yet debt advice and its impacts remain neglected. As Williams (2004)

notes, most findings have been generated by people working in debt counseling who are trying to justify their funding.

There is growing interest in evaluating debt counseling. For instance, the pilot outreach programs referred to above have been the subject of recent evaluation (e.g. Smith and Patel 2008). Of particular interest is a set of four studies that investigate the impact of debt advice (all four studies are presented in Pleasence *et al.* 2007). The first study (Williams and Sansom 2007) is comprised of interviews with 176 clients of 14 advice agencies at the time they received advice, 6 months after they received advice, and 12 months after they received advice. The second study is an analysis of quantitative data drawn from the 2004 English and Welsh Civil and Social Justice Survey (CSJS), a large-scale nationally representative survey of people's civil justice problems, including debt. The third study (Turley and White 2007) involved 42 qualitative interviews with people identified as having experienced debt problems through the 2004 CSJS. The fourth study (Pleasence and Balmer 2007) was a random control trial involving 402 participants, all of whom had ongoing debt problems for which they had not obtained formal advice. The sample was drawn from 3,163 adults screened at 16 Jobcentres across England and Wales. A total of 205 clients of the 402 study participants in this experiment were randomly assigned to receive an offer of debt advice.

Pleasence *et al.* (2007) argue that the four studies provide a set of complementary findings that demonstrate a positive impact of debt advice. For instance, participants offered advice as part of the random control trial were significantly more likely, relative to those who were not offered advice, to report that their financial situation was "better" or "much better" at the 20-week follow-up. Positive findings were noted in the other three studies as well. The mean level of debt reported in the study of advice agencies' clients fell from £18,780 (\$26,243) at the time of advice to £11,195 (\$15,644) one year later.

Nevertheless, considerable caution is required in interpreting these positive findings (Pleasence *et al.* 2007). The extent to which the drop in the mean level of debt can be attributed to debt advice remains unclear since methodological problems meant there were no equivalent observations of people who did not obtain advice. Indeed, the control trial provided no direct support for the hypothesis that advice leads to a significant reduction in debt levels. There were more immediate methodological problems as well. In the random control trial, the proportion of people who went on to obtain advice following the offer of advice was relatively low (35 per cent). This low take-up rate substantially reduced the ability of the control trial to identify and quantify the relative benefits of debt advice. The control trial was intended to incorporate two follow-up stages of interviews. However, the trial was halted after the first follow-up, owing to sample attrition. Only 234 of the 402 participants were contacted (58 per cent), which was below the number of interviews needed for the statistical power to reliably identify differences between the intervention and control groups. The lack of follow-up after 12 months meant that the durability of any improvements was not tested (for a more detailed discussion of the difficulties of conducting the random control trial, see Pleasence 2008). This is particularly pertinent because the study of advice agencies found that some benefits of advice were less evident after one year than after six months following debt advice. This finding must be treated with some caution because attrition was a problem not

only in the random control trial but also in the qualitative study and the advice agency study. In the latter, just 61 of the original 176 respondents were successfully contacted after 12 months, an attrition rate of 65 per cent. Although there are strategies for reducing attrition and bolstering response, as well as statistical models that account for attrition and observable biases, this study suffers many of the common pitfalls of using experimental methods in a field setting.

In both the US and UK, the same general themes are therefore evident: (1) there is very limited analysis of the impact of debt counseling; (2) there is some evidence that debt counseling has a positive impact; (3) however, the evidence base is weak, and methodological problems undermine past findings. In light of these issues, both authors have undertaken their own research into the impact of debt counseling.

New Research into the Impact of Debt Counseling

For the purposes of this article, our focus will be on the findings from the research we have undertaken. Unfortunately, space limitations prevent more detailed descriptions of the methodologies we have employed and full analytical accounts. Some details are provided in Tables 1 and 2,⁴ and sources for further information are referenced below. Initial consideration will be given to Collins' study in the US.

888-HOPE

This study provides direct empirical evidence of how the offer of telephone counseling for delinquent mortgage borrowers is related to the likelihood of positive outcomes (a fuller account including methodological details is available at http://www.richmondfed.org/conferences_and_events/research/2008/pdf/state_mortgage_foreclosure.pdf). In addition, this study examines how differences in state laws and foreclosure prevention programs are related to the likelihood of a delinquent borrower avoiding foreclosure. The study uses data from one national lender during the 15 month period of January 2007 through March 2008. In January 2007, 25,695 borrowers who were at least 60 days behind on their mortgages received letters suggesting they call the 888-HOPE hotline to receive assistance in resolving their delinquency from a non-profit counseling agency unaffiliated with their lender. The study was not randomized, but a separate group of 6,285 borrowers received a similar letter at the same time which only suggested the borrower call a toll-free telephone number for their servicer; they were not given information on the 888-HOPE hotline. This design created the potential for a non-experimental comparison group. As of March 31, 2008, data existed for 31,980 borrowers.

While not randomized, the lender's database included a large number of variables about the loan at origination and over time. The study could therefore employ a quasi-experimental approach – propensity score matching – to directly address concerns about selection bias. The propensity score was used to estimate how likely each borrower would be to receive a letter offering counseling versus the letter offering only the lender's phone number. The lender sent out similar letters to borrowers in default from over 50 different loan pools in the same period, varying only one paragraph promoting the 888-HOPE telephone counseling hotline. Predictor variables included credit score and income at origination, loan type and

Table 1. Counseling offer models: propensity scores specification, robust errors. As of March 31, 2008, from January 1, 2007

	Started foreclosure (<i>probit</i>)	Completed foreclosure (<i>probit</i>)	Cure of loan (<i>probit</i>)	Modification of loan (<i>probit</i>)	Make contact none (<i>probit</i>)	Days delinquent (<i>OLS</i>)
No baseline controls, weighted						
Counseling letter	-0.058	-0.144	0.066	-0.12	0.084	-21.733
	-1.38	-1.34	1.58	-3.02	1.84	-3.65
Constant	-0.749	-2.58	-0.796	-1.454	0.184	181.533
	-18.18	-26.2	-19.51	-39.41	4.13	31.09
With controls, weighted						
Counseling letter	-0.017	-0.109	0.03	-0.086	0.064	-12.635
	-0.4	-0.97	0.71	-2.07	1.4	-2.26
EIS (early indicator score)	-0.003	0.003	0.001	-0.001	-0.001	-0.324
	-8.2	2.99	2.96	-3.75	-1.42	-6.56
Unpaid bal \$ (00)	0.001	-0.001	-0.001	0	0	0.001
	6.54	-1.65	-4.79	3.61	-0.05	7.45
FHA/VA loan	0.002	-0.184	-0.042	0.32	-0.113	6.53
	0.04	-1.24	-0.79	5.9	-1.92	0.92
Days delinquent baseline	0.007	0.012	-0.006	0.011	-0.009	2.108
	5.07	2.86	-4.04	7.25	-5.62	10.47
ARM loan	0.346	-0.004	-0.312	-0.331	-0.201	72.073
	6.41	-0.03	-5.05	-5.77	-3.3	9.37
Subprime loan	-0.253	-0.254	-0.099	0.11	0.15	0.387
	-3.79	-1.78	-1.72	1.25	2.19	0.05
Refi loan	0.043	0.1	0.062	-0.05	-0.135	0.018
	0.62	0.72	1.05	-0.76	-2.03	0
Prepay provision	0.082	-0.017	-0.084	-0.191	-0.035	11.379
	1.42	-0.1	-1.28	-2.88	-0.52	1.47
Low doc loan	0.029	0.011	-0.105	-0.01	-0.047	11.953
	0.41	0.06	-1.56	-0.12	-0.64	1.41
Modification in place - baseline	0.123	-0.588	-0.142		0.112	20.047

(continued)

Table 1. (Continued).

	Started foreclosure <i>(probit)</i>	Completed foreclosure <i>(probit)</i>	Cure of loan <i>(probit)</i>	Modification of loan <i>(probit)</i>	Make contact none <i>(probit)</i>	Days delinquent <i>(OLS)</i>
Constant	2.17 -0.563 -2.98	-2.51 -4.098 -7.12	-2.42 -0.29 -1.31	-2.125 -10.11	1.85 1.058 4.59	2.54 56.995 2.16
N	31928	22375	31928	22375	22375	29472

Note: Bold indicates statistical significance at 95 per cent level.

Table 2. Counseling-Policy Interaction Models: Propensity Scores Weighted Specification, 321 MSA Fixed Effects Robust Errors Clustered at State Level. As of March 31, 2008, from January 1, 2007

Variable	Started foreclosure (OLS)	Completed foreclosure (OLS)	Cure of loan (OLS)	Modification of loan (OLS)	Make contact none (OLS)	Days delinquent (OLS)
Counseling letter	0.028	0	0.026	-0.01	-0.005	-1.476
State fcl program	2.1	-0.04	1.57	-2.31	-0.21	-0.42
Counseling * st fcl program	0.062	-0.001	-0.019	0.001	0.001	10.795
Judicial only law	1.75	-0.35	-0.79	0.09	0.01	0.84
Redemption law	-0.069	0	-0.033	-0.003	0.064	-18.373
EIS (early indicator score)	-3.16	0.01	-1.59	-0.54	2.17	-2.96
Unpaid bal \$(000)	0.002	0.004	0.001	0.03	-0.013	1.473
FHA/VA loan	0.04	1.29	0.07	2.96	-0.43	0.09
Days delinquent at baseline	0.006	-0.002	0.005	-0.014	-0.016	21.699
ARM loan	0.43	-1.28	0.31	-1.09	-0.56	4.11
Subprime loan	-0.001	0	0	0	0	-0.382
Refi loan	-7.72	2.62	4.85	-2.77	-1.3	-7.16
Prepay provision	0.00	0.00	0.00	0.00	0.00	0.147
	2.86	-1.57	-3.5	4.69	1.87	4.52
	-0.005	-0.002	-0.018	0.046	-0.024	6.259
	-0.38	-1.6	-1.11	6.59	-1.34	0.86
	0.002	0	-0.002	0.001	-0.003	1.991
	3.89	2.88	-4.84	7.28	-4.27	8.79
	0.09	0	-0.081	-0.033	-0.05	64.114
	4.2	0.04	-6.21	-4.14	-2.85	8.28
	-0.064	-0.005	-0.027	0.015	0.061	-1.552
	-2.89	-1.76	-1.69	2.7	2.17	-0.2
	0.013	0.002	0.007	-0.012	-0.016	0.986
	0.59	0.8	0.38	-1.62	-0.78	0.12
	0.011	0	-0.017	-0.016	-0.012	7.582
	0.44	-0.15	-0.85	-2	-0.44	0.7

(continued)

Table 2. (Continued).

Variable	Started foreclosure (OLS)	Completed foreclosure (OLS)	Cure of loan (OLS)	Modification of loan (OLS)	Make contact none (OLS)	Days delinquent (OLS)
Low doc loan	0.018	0.002	-0.04	-0.004	-0.026	15.616
	0.69	0.59	-1.84	-0.69	-0.91	1.41
Modification in place – Jan.	0.039	-0.003	-0.045		0.037	25.144
	2.09	-2.83	-2.77		1.32	3.18
Non-metro	0.084	0.003	0.014	0.032	0.031	9.832
	3.87	2.25	0.32	3.45	0.52	0.61
Constant	0.296	-0.014	0.312	-0.016	0.835	79.898
	5.5	-1.67	4.86	-0.77	6.69	2.65
N	31928	22375	31928	22375	22375	29472

Note: Bold indicates statistical significance at 95 per cent level.

terms. All borrowers were ranked by their propensity to receive the letter offering counseling versus the letter offering only the lender's in-house number. The ranking was broken into 25 equal-sized groupings, ranging from those with high propensity scores to those with low scores. Borrowers who received the counseling offer letter were given a weight of 1. Borrowers receiving the letter with only the lender's telephone number received a weight based on the ratio of counseling letters to non-counseling letters in the grouping. For example, of 1,000 loans in a high score grouping, 100 might be the lender-only letter, and 900 might be the counseling letter. The weight for the loans in the group would be 1 for all counseling letters and 0.1 for all non-counseling letters in the group. Thus, the comparison letters are weighted by how likely they would be to have received the counseling letter in order to create a counterfactual condition. The propensity score methodology is frequently used in evaluation studies. The weighted version is a more recent innovation (see Orr *et al.* 2007 for an example). Compared to a two-stage selection model, this approach is more robust and requires fewer assumptions.

State laws and policies, including the use of judicial proceedings, the existence of a right of redemption and the existence of state-wide foreclosure intervention strategies are indicated by state dummy variables. In addition metropolitan statistical area (MSA) fixed effects are included to proxy for unobserved factors in local housing markets. Other covariates include unpaid balance, default risk score (or Early Indicator Score, EIS), loan balance, an indicator if the loan is covered by government Federal Housing Agency or Veteran's Affairs mortgage default insurance (FHA/VA), days delinquent at the time of the letter sent and indicators for loan terms such as an adjustable interest rate (ARM), prepayment penalties and documentation level. Dependent variables include the likelihood of a foreclosure being started, the likelihood of a foreclosure being completed, whether the delinquency is cured, if the loan receives a modification, if the borrower makes contact with the lender and total number of days payments are past due as of March 2008. The effect of the offer of counseling is estimated using weights derived from a propensity score estimator included as a direct effect and then in combination with state laws and policies.

It is important to note that the treatment is receiving the letter offering counseling, not receiving counseling *per se*. Promoting counseling to borrowers might have a direct effect in that borrowers receive help and improve their payment behaviors. Other borrowers might not call the counseling agency immediately but may seek help at a later time. Some borrowers might seek help from another source. The offer of counseling could also serve as a signal to borrowers that they need to take some action to better manage the delinquency. It might also serve as a signal that the lender wants the borrower to succeed.

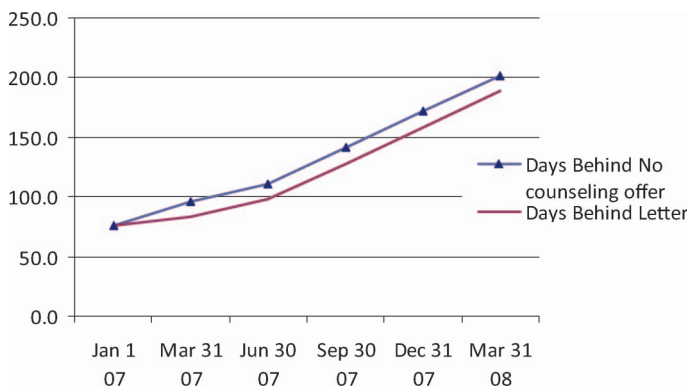
Although not shown in Table 1, the findings from the model predicting the take-up of counseling among borrowers who received the letter offering counseling are noteworthy. These data indicate a strong selection effect in which the riskiest borrowers are more likely to seek counseling. Borrowers with worse foreclosure statuses and riskier loan terms, such as low-documentation loans and adjustable rate loans, are more likely to take up counseling services. This finding suggests that studies examining the outcomes of default counseling must carefully consider potential selection biases.

The results are presented in three forms: first, a simple propensity weighted model with no controls (Table 1); second a similar model with controls (Table 1); and finally, a propensity score weighted model including state laws and interactions with the offer of counseling (Table 2). The results indicate that borrowers who were offered counseling in January 2007 were 13 to 22 fewer days delinquent by the end of the period (about a 14 per cent marginal effect at the upper end of the range). Adding the baseline controls to the model reduces the magnitude of the effects and the significance, but the results remain robust.

The number of days delinquent (using propensity score weights) was similar for both groups as of January 2007, and increased for both groups at a similar rate, as shown in Figure 1. In this figure, for the first two quarters after the offer of counseling the slope for the group which was offered counseling suggests a lower rate of delinquency. This may be a result of borrowers pursuing a forbearance with their lender due to the counseling session. The lender may reduce payments or interest for a short period to allow the borrower to catch up on payments.

Making contact with the lender and cure of the loan had positive coefficients but were not significant at standard levels, except when in combination with states having a foreclosure prevention program. Consistent with an initially lower rate of days delinquent in Figure 1, borrowers in these models show lower use of loan modifications. This could be because these borrowers were using less formal forbearance agreements rather than legal changes to the loan contract. It may initially seem inconsistent that the number of days delinquent is lower while modifications are less likely. On the other hand, it is possible that lenders do not actively pursue loan modifications (less than 8 per cent of loans had any form of modification in place) but instead promote forbearance or payment plans as the primary solution to delinquency. In turn, this could result in the loan being more likely to have lowered payments (for a short time) and, therefore, in the borrower having a better chance of catching up on late payments even if they do not “cure” the default entirely. The lender is unlikely to reconfigure a payment plan for a modification until the plan has had time to perform or until it becomes clear that the

Figure 1. Days delinquent for borrowers receiving offer of counseling and comparison group using propensity score matching



loan needs to be restructured through a loan modification. Borrowers with modifications will be the most severe cases and may be less likely to have previously called their lender for payment plan options.

Borrowers receiving a letter offering counseling in a state with a foreclosure initiative are about 7 percentage points less likely to experience a foreclosure start or initial filing, all else being equal (Table 2, a 35 per cent marginal effect). These borrowers are also more likely to contact their lender, as the results suggest an 11 per cent increase at the mean (Table 2). Such borrowers are also about 18 fewer days behind (Table 2). However, there is no statistically significant difference in the cure rate or incidence of loan modifications associated with receiving the counseling letter. There are no interactions between state judicial foreclosure procedures or rights of redemption and the offer of counseling.

Overall, this analysis suggests that a lender's voluntary strategy of offering third-party counseling is more effective when combined with state-level initiatives promoting alternatives to foreclosure, foreclosure rescue funds, or other foreclosure-mitigation strategies. State foreclosure procedures and rights of redemption do not appear to enhance outcomes either alone or in combination with lender offers of counseling. The offer of counseling had a positive effect on the number of days borrowers were delinquent on their loans, reducing days behind about 14 per cent on average in the most robust model. Loan cures and borrower/lender contact rates were not affected during the 15-month period analyzed in these data. Loan modifications in general tend to be rare in these data (less than 7.4 per cent of all loans as of March 2008), but counseling also does not significantly affect this outcome. The effects of the offer of counseling in states with foreclosure programs are consistent using MSA fixed effects and state clustering of standard errors and suggest a decrease in foreclosure starts, an increase in borrower/lender contact rates and a reduction in the number of days delinquent. These findings indicate that voluntary lender offers of counseling may best be offered in combination with state and local policies. It is likely that states with such efforts generate publicity and encourage borrowers to become more aware of the potential for alternatives to foreclosure. This is consistent with earlier research that finds borrowers are more likely to engage with lenders to resolve their delinquency if they are aware of approaches that could be used to address their financial problems.

These results have several limitations. The data are derived from a single lender during the initial phase of what is clearly one of the more challenging periods in the history of the mortgage-lending and servicing industry. The period of analysis occurred prior to the collapse of several well-known subprime lenders and the increased media, regulator and investor scrutiny of servicing practices. State and federal policies and regulatory functions are evolving and may be inconsistent with the period of this analysis. Also, the lack of findings regarding cured loans and foreclosure completions may be an artefact of the relatively short time period analyzed.

Together, these results suggest that the combination of lender efforts to offer counseling with state foreclosure prevention programs has some positive associations with improved borrower outcomes. To the extent policy makers seek to encourage borrowers in default to contact their lender and develop repayment options, co-ordination of state policies and lender efforts may provide the strongest effects.

A Qualitative Study of the Impact of Debt Counseling

Orton's (2008) qualitative research in the UK uses a different starting point than the US study (of 888-HOPE). The UK study is concerned with low-income households and is based on in-depth interviews with 59 people who have received debt advice. Interviewees were involved via six not-for-profit advice providers: five locally based face-to-face providers and one national telephone helpline. The research does not seek to compare different forms of service provision, and instead aims to include individuals who use a variety of advice services. The core of this research took place in one English sub-region, but the inclusion of the telephone helpline gave national coverage. Interviews were conducted in all but one of the English regions. This is a longitudinal study, and interviewees will be followed over a three year period (2007–2010). The findings presented here are from year one of the project. Further details can be found in a working paper available at http://www2.warwick.ac.uk/fac/soc/ier/research/current/debt/wp2-the_year_1_report.pdf. Reflecting the interest of this article, the focus here is on the impact of debt counseling.

Interviewees were nearly unanimous in being positive about their experiences with debt advice. However, their reasons for this are perhaps somewhat surprising. Interviewees gave a wide range of reasons for being positive about their experience of debt advice, but debt reduction/loan cure was not one of them. Indeed, interviewees identified three key themes as being particularly valued: having someone to talk to; obtaining information and options; and being better able to deal with lenders. The first of these points reflects one of the other findings in the study, that debt is a highly distressing and isolating experience. Having someone to talk to who was understanding, non-judgmental and sympathetic was seen by interviewees as immensely positive. This led into a theme of reassurance, with interviewees immediately benefiting from the knowledge that there was an organization available that could help and that there were ways forward to deal with their debts. This developed with the provision of information and options for borrowers. As one interviewee explained: "It's just knowing what you are dealing with makes it so much easier to do. It was so scary before. I thought 'oh my God, I'm going to have my house repossessed' ... but they said the chances of that are actually remote" (Woman, self-employed, 30s). The third theme was being better able to deal with lenders. In some cases, the advice provider represented the client, which brought an immense sense of relief for people who felt unable to act for themselves or who had reached an impasse in negotiations with lenders. Interviewees who chose to act for themselves also reported increased confidence, based on practical elements such as being given example letters, or being better informed about the powers available to lenders. There is a resonance here with the findings from research undertaken in this field and referred to above (e.g. UK studies by Turley and White 2007, Smith and Patel 2008), and also with research into the more general provision of legal advice services (e.g. Moorhead and Robinson 2006, Sandefur 2007).

While the overwhelming majority of interviewees were very positive about the experience of debt advice, this does not automatically mean their problems were resolved. In terms of the *impact* of debt advice, the research did not find many examples of people who became debt free as a direct result of advice. Advice did have

some immediate impacts, and the avoidance of repossession was one such example. One interviewee expressed her view bluntly: “I would’ve lost my house without them [the advice provider]” (Woman, unemployed, 40s). There were, however, relatively few interviewees who reported such immediate and dramatic impacts. The far more common theme expressed by interviewees can be described as debt advice making a person’s financial position more manageable or, in a phrase used by several interviewees, “under control.” This was particularly dependent on negotiating affordable repayments with lenders, as one interviewee explained: “compared with when it was like £300 [per month on repayments] we were having to pay . . . I think it’s about £50 now, so . . . I can afford to do those, I’m being able to manage that” (Interview 13 – Woman, office worker, 20s). This appears to highlight the need for a range of suitable outcome measures in relation to the impact of debt counseling. For example, the random control trial discussed above utilized not just debt reduction but other measures including health, anxiety and relationship satisfaction (Pleasence 2008).

This qualitative research provides instances in which debt advice did not have any impact. Two key themes were raised by interviewees. The first was low income, which was an issue related to the impact of advice in a number of ways. While advice could in some cases increase income through identifying additional welfare benefit entitlements, it could not alleviate low income as a cause of debt. For example, some interviewees attributed their debt as due to long-term low income with debt being a recurring experience. Similarly, for interviewees whose debts were due to a change in circumstances (e.g. job loss or relationship breakdown), the key issue also remained that they had insufficient income to cover expenditures. While aspects of advice had been helpful, interviewees in this group were still struggling to make payments. The second theme was debt as part of a broader set of (non-financial) circumstances. This included examples of mental health problems, alcoholism and other personal difficulties. Debt advice was said by interviewees in this group to be helpful, but its impact appeared more dependent on how the other problems were addressed.

The qualitative study therefore supports Collins’ finding of counseling as having a positive but moderate impact, and it sheds greater light on the ways in which counseling might be helpful beyond loan cures. This research raises an issue that a loan cure failure may not be attributable to problems with counseling, but that other factors are relevant. In turn, the direct evidence from the US study that counseling leads to loan cures gives greater confidence to the UK finding of positive impacts.

Conclusion

This article has examined policy responses to the problem of foreclosure in the US and UK, and in particular the provision of debt counseling services. This is a new area of investigation, with only a limited academic literature. In seeking to develop further research in this field, there are a number of options that could be pursued. This has very much been a first step in seeking a comparative approach. We have noted a number of points such as the higher rate of foreclosure in the US than the UK, and differences in the roots of counseling programs. Such issues could form the basis for further comparative investigation – either in relation to the mechanics and

methods of comparative public policy (e.g. Rose 1991), or similarities and differences in policy choices in different national contexts (e.g. Esping-Andersen 1990).

However, the research we have presented in this paper carries clear messages. It is evident that the evaluation of debt counseling has, in both the US and UK, faced methodological problems. There are lessons for US researchers in the problems encountered with the UK random control trial. Equally, the quasi-experimental methodology in the US (888-HOPE) analysis and the direct examination of debt counseling in relation to mortgage foreclosure cures, offers an approach that could be adopted in the UK. Meanwhile, the qualitative approach employed in the UK study offer specific insights into consumer perceptions and behavior and the role of counseling. There are lessons here that can be of value to policy makers in both the US and UK, and in other nations confronting the problems of consumer debt and mortgage foreclosure counseling.

Acknowledgement

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Notes

1. That levels of foreclosure are higher in the US than the UK is itself notable and it would make for an interesting empirical investigation to determine whether, and how, factors discussed in this article contribute to that difference.
2. The US research was funded by the Homeownership Preservation Foundation. The UK research is funded by the Friends Provident Foundation.
3. State laws were compiled from public sources, including RealtyTrac, Pence (2006), and Pew Charitable Trusts (2008). The data are summarized in a table which the authors are happy to provide upon request.
4. An additional point to make is how quantitative and qualitative methods can be combined to provide powerful insights, but further consideration of methodological issues goes beyond the scope of this paper.

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