Responding to increasing house repossessions in the US and UK: a comparative approach to evaluating the impact of debt advice services

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Introduction

The concern of this paper is with the problem of mortgage foreclosures; the provision of debt counselling services as a policy response; and the potential for developing comparative approaches to evaluating the impact of such services.[1] Issues of credit and debt are self-evidently of immense contemporary importance, encompassing government rescues of banks through to rising levels of personal indebtedness. One particular aspect is the increasing number of households facing foreclosure. This is an issue common to both the US and UK. While in percentage terms it is only a small proportion of mortgages that face foreclosure, in absolute terms large numbers of households are affected and it is a rapid rise in foreclosures that is particularly evident. According to the US National Delinquency Study released by The Mortgage Bankers Association in September 2008, 2.75 per cent of all mortgage loans were in some stage of the foreclosure process, an increase nationally by more than 50 per cent in just over a year and affecting approximately 1.8 million households. In the UK, also in September 2008, 1.44 per cent of mortgages (168,000 households) were in arrears of three months or more, 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 of over three months may reach half a million (Council of Mortgage Lenders, 2008).[2] Both nations have not experienced foreclosures to this extent for decades.

There are a number of reasons why foreclosures can be seen as a major problem, and one requiring a policy response (see Collins 2007). For individuals, the sale of a home often does not produce enough to pay off unpaid principal and related costs of foreclosure to the lender. There is also long-term damage to the person's credit record. In addition to financial loss are other potential personal and psychological impacts (for a discussion of the relationship between debt and health problems see Balmer et al. 2005). For lenders, the foreclosure process takes 12 to 18 months to resolve, tying up human resources and lender assets. According to Cutts and Green (2005), lenders lose an average of $44,000 to $58,000 (£32-42,000) per completed foreclosure depending on the circumstances. Local communities also face significant costs. Homes in the foreclosure process can become vacant, providing a place for crime or other problems in the neighbourhood (Immergluck and Smith 2006). Estimates of 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, and in lost economic output of individuals, is over £1,000 ($614), with more serious problems such as foreclosure involving costs of many times this amount (Pleasence et al. 2007).

In both the US and UK the rise in foreclosures has triggered considerable media attention and an array of policy responses, with one key response in both countries being the provision of debt counselling. There is no agreed definition of what constitutes debt counselling (Pleasence et al. 2007). At its broadest, debt counselling can be seen as services providing information, advice and guidance on how to deal with debt problems. Based on this definition, debt counselling can include services provided by for-profit and not-for-profit organisations; it can offer different levels of service from the simple provision of information through representation of debtors in negotiations with lenders. It can also be based on different delivery models including self-help approaches, telephone support or face-to-face counseling. However, our interest here is in the provision of debt counselling free of charge by not-for-profit agencies and based on a broad methodology of maximising income through checking entitlement to welfare benefits, tax credits and so on; working out a financial statement listing all income and expenditure, which identifies surplus income available for debt repayment; the prioritising of debts; and then negotiating repayments with lenders. Our definition of debt counselling can therefore be summarized as meaning services provided by third-party, non-profit counselling agencies which help borrowers engage with their lender in an effort to work through their financial problems. However, remarkably little is known about the impact of debt counselling services. There is only a very limited literature with which to engage and draw upon. Consequently, this paper explores whether developing a comparative approach to research in the US and the UK can provide a greater understanding of the issue.

The paper is in five parts. First, is a discussion of foreclosure processes in the US and UK. Second, consideration is given to policy responses to the problem of increasing levels of foreclosure, and the provision of debt counselling services. Third, the issue of the impact of debt counselling is examined. Fourth, findings from new research[3] by the authors investigating the impact of debt counselling are presented. The US study employs a quasi-experimental approach – propensity score matching – in which 25,695 borrowers at least 60 days behind on their mortgage received letters suggesting the borrower call a non-profit counselling agency (888-HOPE) unaffiliated with their lender, while a separate group of 6,285 borrowers received a letter suggesting the borrower call a toll-free phone number for their mortgage loan servicer only. The UK research is a qualitative study, based on in-depth interviews with 59 people who have received debt counselling, with the aim of identifying key themes in what counselling recipients see as critical in service provision and impact. Fifth, the paper concludes by discussing common themes in the findings, and sets out a potential comparative research agenda.

Mortgage foreclosures

When consumers take out a mortgage, they enter into a contract to make payments under specific terms. If a borrower fails to make timely payments, the contract is violated and the loan is in default. The borrower remains in default until the loan is brought current or an arrangement is made with the lender regarding payment and terms to resolve the delinquency. While these general points apply equally in the US and UK, there are some significant differences between 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 with the goal of 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, signs the home over to the lender, or when the property is sold at a foreclosure auction. However, lenders typically offer several options to borrowers prior to initiating the foreclosure process with key elements being either a forbearance or repayment plan where past due amounts are deferred to the future or a loan modification where the rate, term and even principal of the loan are renegotiated. There are several significant variations across states in the types of protections provided to borrowers facing a foreclosure. One important factor is whether foreclosure is carried out through a judicial or non-judicial process. In 20 of 50 states the judicial process is the only option and all foreclosures in the state must proceed through the courts.

In the UK the foreclosure, or repossession process as it is called, operates on a rather simpler basis in that it is a national system with no substantive local variation and is a formal judicial process. Thus, while lenders generally offer the same options as listed above for 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'. In short, the debtor puts a proposal to the court to repay arrears over a stated period. If the court considers this 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 so long as the 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 policy responses in the US and UK, and the importance of debt counselling.

Policy responses

There are a number of common themes in policy responses in both countries. To begin with the UK this time, during 2008 there were a series of policy announcements aimed at reducing levels of repossessions. Four major initiatives include: (1) the Support for Mortgage Interest scheme, which amended the welfare benefits system to provide improved support to home-buyers with mortgages who lose their jobs (www.communities.gov.uk/housing/strategiesandreviews/housingpackage/); (2) the Homeowner Mortgage Support Scheme, providing 'mortgage holidays' for home buyers who may suffer a temporary fall in income, but are expected to recover at a later date (http://www.communities.gov.uk/housing/buyingselling/mortgagesupportscheme/); (3) the Mortgage Rescue Scheme enabling homeowners facing repossession to remain in their home through a shared equity scheme, whereby a Registered Social Landlord or RSL) will provide an equity loan enabling the householders' mortgage repayments to be reduced; 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 of what was heralded as a 'Billion pound package for housing' (http://www.communities.gov.uk/housing/strategiesandreviews/housingpackage). However, the large majority of this consisted of bringing forward already planned social housing and regeneration programmes as well as 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. The

HASP includes to major programs: (1) refinance 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, including the use of government subsidies to servicers to do so. Prior to the federal plan, 19 US states launched foreclosure prevention initiatives. These policies include promoting loan workouts and special loan or grant programs that help borrowers bring their loan current. In 2008 the US created a Federal Housing Administration (FHA) insured loan called Hope For Homeowners which refinances troubled loans with negative equity, but the plan resulted in few loans being helped. There are no forms of public or not-for-profit property owners taking on properties facing foreclosure and renting them back to former owners as tenants (not-for-profit community development corporations in the US are the closest approximation to the RSL structure, and while these agencies have experience 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, although in the US 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 renters, only later to be evicted (OCC, 2008).

A protection available in 22 US states, but not in the UK, is that homeowners can regain the property through a statutory right of redemption. Depending on the state, homeowners can redeem their property for the foreclosure sale price plus foreclosure expenses for up to a year after the foreclosure. In practice borrowers rarely exercise statutory rights of redemption, especially in weak home value markets. However, the right of redemption adds to the costs of foreclosure for lenders and provides an incentive to offer alternatives to foreclosure to delinquent homeowners.

A theme that is common in both countries is that while it might appear that the above represents a significant response to the rising level of foreclosures, the real 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 it will help just 6,000 households over two years. Both the Support for Mortgage Interest Scheme and Homeowner Mortgage Support Scheme are based on such complex qualifying rules that the extent to which they will provide additional support remains very much to be seen. This is parallel with US experience such as with the FHA Hope For Homeowners program. Congress made the terms strict, in order to prevent the appearance of abuse, including a requirement that 50 per cent of any future gain in the home's value would go to the government—which reduced incentives for use. It remains to be seen if the US HASP program has more success.

Within these various policy developments one response has remained consistent in both countries, and is of increasing importance: the provision of debt counselling, to which we now turn.

The provision of debt counselling services

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

To emphasise the importance of debt counselling services, the US Federal government provided $50 million (£36) for all types of housing counselling in 2008, an increase from $20 million in 2001 (Herbert, Turnham, Rodger, 2008). Approximately 1,800 non-profit agencies receive these funds to support their counselling programs, which served over 1.7 million individuals in 2007. About 25 per cent of clients served were renters seeking apartments, 20 per cent first-time homebuyers and 16 per cent seeking default counselling, although the number of foreclosure clients increased by nearly 50 per cent from 2006 to 2007 (Herbert, Turnham, Rodgers, 2008). In 2008 the US Congress allocated $360 million (£260) in additional funds to specifically address foreclosure issues (http://www.huduser.org/Publications/PDF/hsg_counsel.pdf). While the US Department of Housing and Urban Development (HUD) has historically only promoted counseling in face-to-face settings, as the demand for debt counseling for borrowers in default has risen, HUD has allowed alternative formats of counseling, including telephone counseling. Telephone counseling offers greater convenience to deal with critical issues at almost any time without requiring transportation and also providing for greater anonymity (Herbert, Turnham, Rodgers, 2008).

Turning to the UK, we can see the same theme of increased funding for the provision of debt counselling. In November 2008 it was announced that “a further £15.85 million ($22) 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 builds on expansion of the debt advice sector since around 2004, although different to the US, this expansion was initially separate to housing issues and 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, in 2004, an action plan for tackling (over) indebtedness (Department of Trade and Industry 2004). This marked the identification of debt as a specific social problem and an issue requiring policy action. The action plan was updated annually through to 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. In the 2007 report it is stated that: “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) was allocated to increase the supply of free face to face debt advice. Support has continued to increase. While unpacking different spending announcements is complex, somewhere in the region of £80 million ($112) is now committed by the Government to increase capacity through to 2011 (Department for Business, Enterprise and Regulatory Reform 2007). As in the US, support is provided both for face-to-face and telephone services.

What is particularly striking given these fiscal commitments is how little is known about the impact of counselling. Both nations are expanding access to counselling and advice services based on an apparent belief rather, rather than empirical evidence, that more information provided by counsellors will result in improved financial behaviours. Given the costs and complexities of monetary grants and loan restructuring, there is also the practical advantage that counselling provides a tangible and immediate program policymakers can highlight as being responsive to the foreclosure problem. However, it is the impact of debt counselling that is our concern here, and to which we now turn.

Evaluating the impact of debt counselling

The point of this section is essentially very simple; there is very little previous research into the impact of debt counselling. In the US there is a general literature on mortgage counselling which dates back to the late 1960s, during which time the Federal Housing Administration (FHA) mortgage insurance program struggled to manage its troubled Section 235 program (Quercia and Wachter 1996). However, the most relevant prior study is Ding, Quercia, and Ratcliffe (forthcoming) which examines the association between phone counselling and the likelihood of 'curing' a default among loans made to low-income borrowers. Specifically, the study examines outcomes among 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 counselling agency by phone. The counselling agency then attempted to contact the borrowers to offer assistance in assessing their situation and offering advice about the best way to work with their lender to resolve the situation. The study finds that the receipt of counselling is associated with a higher likelihood of loans curing a default. Although not a true experiment, the authors use a model to account for self-selection by borrowers to receive counselling and finds that the association between counselling and cures remains. Cutts and Merrill (2008) present information on telephone-based counselling services offered to borrowers who were at least 60-days delinquent on their mortgages but does not attempt to estimate the impact of counselling on curing defaults.

Several studies examining the association between pre-purchase counselling and the subsequent incidence of mortgage delinquency. For example, Hirad and Zorn (2001) analyzed the association between pre-purchase counselling and the incidence of 90-day delinquency among nearly 40,000 loans originated between 1993 and 1998. The study found that controlling for a variety of borrower, loan, and property characteristics, counselling was associated with a reduced risk of delinquency, although like Dent et. al the data had self selection problems. One notable study of credit-related counselling, but not mortgage default counselling, is Elliehausen, Lundquist, and Staten (2007), which focused on clients of five consumer credit counselling organizations assisted in mid-1997. 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 counselling. The study concludes that counselling is associated with increases in credit scores, reduction in debt levels, and reduced incidence of missed payments.

Evaluation of debt advice in the UK

There is a similar lack of research in the UK. The 1980s and early 1990s saw a growing literature on debt, as the issue became the focus of greater policy and academic attention, for a mixture of reasons including the effects of economic recession and restructuring, increasing levels of poverty, increasing credit use, and shifts from renting to owner-occupation (e.g. see Ford 1988). Studies included what remains the only specific survey of credit and debt in the UK that has ever been undertaken (Berthoud and Kempson 1992) and then a wide range of investigations of particular types of debt e.g. fuel debt (Rowlingson and Kempson 1993), water debt (Herbert and Kempson 1995), and so on. But this growing body of work included only one reference on debt counselling, itself a rather descriptive account (Hinton and Berthoud 1988). The literature on debt has continued to grow, for example focusing on debt in relation to different demographic groups (e.g. women and debt - Fawcett Society 2007) or more generic accounts of the causes and experience of debt (e.g. Kempson et al. 2004). But debt advice and its impact remains neglected. As Williams (2004) notes, most findings have been produced by people working in debt counselling who are trying to justify their funding.

There is, however, growing interest in the issue particularly evidenced in a programme of four studies investigating the broad impact of debt advice (the findings of all four studies are presented in Pleasence et al. 2007). The first study (Williams and Sansom 2007) comprised interviews with 176 clients of 14 advice agencies, at the time they received advice and six and twelve months later. The second study consisted of 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 experiences of 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 forthcoming) was a random control trial involving 402 participants, all of whom had on-going debt problems about which they had not obtained formal advice, drawn from 3,163 adults screened initially at 16 Jobcentres across England and Wales. A total of 205 clients of the 402 study participants in the experimental trial were randomly allocated 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 clear positive impact of debt advice. For example, participants offered advice as part of the random control trial were found to be significantly more likely, than those not offered advice, to have reported that their financial situation was 'better' or 'much better' at 20-week follow-up. This positive finding was reflected in the other three studies. The mean level of debt reported in the study of advice agency clients was observed to fall from £18,780 ($26,243), at the time of advice, to £11,195 ($15,644) one year later.

However, considerable caution is required in relation to the findings (Pleasence et al. 2007). For example, the extent to which the drop in the mean level of debt can be attributed to advice remains unclear, as methodological problems meant there are no equivalent observations for people who did not obtain advice. Indeed, the control trial provided no direct support for the proposition that advice leads to a significant reduction in levels of debt. There were more immediate methodological problems. In the random control trial the proportion of people who went on to obtain advice, following an offer of advice being made, was relatively low (35 per cent) and substantially reduced the ability of the control trial to identify and quantify the relative benefits of advice. The control trial was intended originally to have included two follow-up stages of interviews. However, the trial was halted after the first follow-up, owing to sample attrition, with only 234 of the 402 participants contacted (58 per cent). This was below the number of interviews for the trial to have the intended level of 'power' to identify, reliably, differences between the intervention and control groups. The lack of follow-up after twelve months meant that the durability of any change for the better was not tested. This is particularly pertinent because the advice agency study found that some benefits of advice were less evident after one year than six months. However, that finding itself must be treated with some caution because attrition was a problem not only in the random control trial but also the qualitative study and the advice agency study. In the latter, of the original 176 respondents just 61 were successfully contacted after 12 months – an attrition rate of 65 per cent. Although there are methodologies to reduce attrition and boost responses, as well as statistical models of attrition and observable biases, this study raises many of the common pitfalls to conducting rigorous empirical research using experimental methods on a field setting.

In both the US and UK the same themes are therefore evident: there is very limited analysis of the impact of debt counselling; there is some evidence of debt counselling having a positive impact; but the evidence base is very small and there are methodological issues that mean caution must be exercised in relation to findings. In the light of the above, both authors have undertaken their own research into the impact of debt counselling, as follows.

New research into the impact of debt counselling

To be clear, our aim here is not to provide detailed descriptions of the methodologies we have employed nor full analytical accounts (sources for further information are referenced below): rather, for the purposes of this paper we will focus on key points and findings that assist in discussion of the potential for developing a comparative research agenda. Consideration will be given first to Collins' study in the US.

888-HOPE

This study provides direct empirical evidence of how the offer of telephone counselling for delinquent mortgagors 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, it examines how differences in state law and foreclosure prevention programs are related to the likelihood of a delinquent borrower avoiding foreclosure, and the relationship with counselling. The study used data from one national lender during the 15 month period of January 2007 through March 2008. In January 2007, 25,695 borrowers at least 60 days behind on their mortgage received letters suggesting the borrower call the 888-HOPE hotline to receive assistance in resolving their delinquency from a non-profit counselling agency unaffiliated with their lender. A separate group of 6,285 borrowers received a letter suggesting the borrower call a toll-free phone number for their servicer but were not given information on the 888-HOPE hotline. As of March 31, 2008, data existed for 29,516 borrowers out of the initial 31,980, due to loans being transferred or sold from the lender's database or simply because of incomplete records. The missing cases represent less than 8 per cent of the initial panel. The study employed a quasi-experimental approach – propensity score matching – to more directly address concerns about selection bias in which borrowers either voluntarily seek counselling or are required to obtain counselling based on their circumstances. Compared to a two-stage selection model, the approach is more robust and requires fewer assumptions.

Three models were used in the analysis: State Law Model; Counselling Outcome Model; State Laws-Counselling Offer Interaction Model. The first model focuses exclusively on the effects of state laws and policies — including the use judicial proceedings, the existence of a right of redemption, and the existence of state-wide foreclosure intervention strategies — on the likelihood of a foreclosure being started or completed, whether the loan is modified, or whether the delinquency is cured. The second model assesses the effect of the offer of counselling on the likelihood of the same outcomes using weights derived from a propensity score estimator with and without additional explanatory variables. The third model then tests the effects of the counselling offer in combination with state laws and policies.

The analysis suggests that the offer of third-party counselling 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 support improved outcomes of foreclosure either alone or in combination with the offer of counselling. State foreclosure prevention initiatives alone (not in combination with counselling) also are not associated with significant differences in borrower outcomes.

The offer of counselling alone did have some modest positive effects on the number of days borrowers were delinquent on their loans. This could be related to an increased use of payment plans as borrowers engage in a budgeting exercise with a counsellor and are then connected to their lender. Other outcomes, such as loan cures and borrower-lender contact rates were not impacted, at least in the 15 month period analyzed in these data.

The models interacting state foreclosure prevention policies and the offer of counselling are more promising. The effects of the offer of counselling in states with foreclosure programs are consistent using state or MSA fixed effects and suggest about a 30 per cent decrease in foreclosure starts and a 12 per cent increase in borrower-lender contact rates. These results suggest offers of counselling may be best offered in combination with state and local policies and public outreach campaigns.

Overall these results suggest the combination of lender efforts to offer counselling with state foreclosure prevention programs have some positive associations with improved borrower outcomes. To the extent policy makers seek to facilitate borrowers in default to contact their lender and develop repayment options, coordination of state policies and lender efforts may provide the strongest effects.

A qualitative study of the impact of debt counselling

Orton's research in the UK uses a different starting point from the US study of 888-HOPE, but what is interesting is how it still provides illuminating insights. The research is a qualitative study. It is particularly concerned with low income households, and is based on in-depth interviews with 59 people who have received debt counselling. Interviewees have been 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, but aims to include experience of a variety of advice services. The core of the research took place in one English sub-region, but the inclusion of the telephone helpline gave national coverage and interviews were conducted in all but one of the English regions. This is a longitudinal study and interviewees will be followed up 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/. Reflecting the interest of this paper, the focus here is on one specific point: the impact of debt counselling.

Interviewees were near unanimous in being positive about their experience of debt advice. But the reasons for this are perhaps somewhat surprising. Interviewees gave a wide range of reasons for being positive about their experience of debt, from filling in forms to representation in court, and applications to charities to advice on finance for small businesses, but debt reduction/loan cure was not of them. Indeed, interviewees identified three key themes as being particularly valued: 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 is of debt as a highly distressing and isolating experience. Having someone to talk to who listened, was understanding, non judgemental and sympathetic was seen by interviewees as hugely positive in itself. This led into a theme of reassurance, with interviewees immediately benefiting from the knowledge that there was an organisation available that could help, and ways forward to deal with their debts. This developed with the provision of information and options as to ways forward. As this 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 and this 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. But interviewees who chose to act for themselves also reported increased confidence, based on practical elements such as being given example letters to use, or being better informed about the powers available to lenders.

While the overwhelming majority of interviewees were very positive about the experience of debt advice, this does not automatically mean 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 possession was one such example. This 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 stronger theme expressed by interviewees can be described as debt advice leading to a person's financial position being made manageable or, in a phrase used by several interviewees, 'under control'. This was particularly dependent on negotiating affordable repayments with lenders, as this 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).

The research also provides illustrations of debt advice not having any impact. Two key themes were raised by interviewees. The first was low income, which was an issue in relation to the impact of advice in a number of ways. While advice could in some cases increase income through identifying additional welfare benefit entitlement, it could not alleviate low income as a cause of debt. For example, some interviewees explained the cause of 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 of circumstances (e.g. job loss or relationship breakdown), the key issue also remained that they had insufficient income to cover expenditure. 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 so on. Debt advice was said by interviewees in this group to be helpful, but its impact appeared more dependent on how other problems were addressed, separate to the debt advice.

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

Developing a comparative research agenda

This paper has begun an analysis of similarities and differences between the US and UK responses to foreclosures using debt advice or default counselling. While our findings offer some insights, further development of a framework for comparative analysis is required. With regard to developing a comparative approach there are two points to make. First, is the need for a greater understanding of the policy context. As noted at the start of the paper, foreclosure rates are higher in the US than the UK. While both nations have crafted policy responses targeted to consumers facing mortgage default, the UK policies are rooted in a recent movement towards delivering debt advice and financial education, while in the US counselling is part of a larger housing program. There are certainly elements of strong difference between the two countries such as the availability of non-judicial foreclosure processes and the statutory right of redemption in some US states, which also may result in differential consumer responses in default. Thus, while there is also clearly strong evidence of similarity in general policy responses to the increasing level of foreclosures, a comparative approach would require a far more detailed understanding than the general overview provided as a first step in this paper.

Second, is the potential for development of a new and robust line of research inquiry, based on a comparative research agenda drawing on commonalties and differences. An approach could be taken of simply seeking to learn lessons from each country that might be both interesting and helpful, but still taking a very separate approach. For example, it is evident that investigation of the impact of debt counselling has, in both countries, faced methodological problems. There are lessons for US researchers in the problems encountered with the UK random control trial. Equally, the experimental methodology in the US 888-HOPE analysis and direct examination of debt counselling in relation to mortgage foreclosure cures, offers an approach that could be adopted in the UK. Meanwhile the qualitative approaches employed in the UK study offer specific insights into consumer perceptions and behaviour and the role of counselling. These results as they emerge in the coming years will help provoke additional research questions and policy responses. In any case it is clear more research is required to better assess the magnitude of the effects of foreclosure counselling as well as optimal delivery modes, timing and content.

However, from the discussion in this paper a series of research questions potentially can be articulated, in addition to the core question as to the impact of debt counselling. For example this work suggests we need to reframe how we should understand impact and how is impact best measured. Is loan cure the key indicator, or are other indicators required? Furthermore, why are consumers who are in a financial crisis so reluctant to take-up the offer of debt counselling? Does the form of debt counselling service delivery (e.g. telephone versus face-to-face services) result in different take-up rates or loan outcomes? When is each approach optimally more effective than another, or is there even an optimum service provision? Additional questions arise such as how counselling interacts with other demographic characteristics and economic factors, or the extent to which debt counselling is best seen as a stand-alone service as compared to being delivered in conjunction with other social programs.

Developing a comparative approach offers the potential for a much fuller answer to these questions for the US, UK and other developing nations confronted with problems of consumer debt and mortgage foreclosure. For example, even given different policy contexts, understanding the reasons why consumers are reluctant to seek help for financial problems would enable a far more sophisticated understanding than could be achieved separately.

Conclusion

This paper has examined policy responses to the problem of foreclosure and in particular, the provision of debt counselling services. It has been seen that this is a new area of investigation, with only a limited available literature. A comparative approach to the foreclosure issue in the US and UK reveals some strong differences, but the evaluation of the impact of debt counselling services identifies some common themes. Developing a comparative approach to such evaluation therefore has the potential not only to provide lessons that can be of value to policy-makers in both the US and UK, but to enable a significant improvement in our understanding of the role of debt counselling.

Notes

1. Terminology in the US and UK is different on a number of points. In the UK, foreclosures are called repossessions. What is described as 'debt counselling' in the US is referred to in the UK as 'debt advice' or 'money advice'. As US terminology is more widely recognised that is what will be used in this paper, except in direct discussion of the UK.

2. 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 paper contribute to that difference.

3. The US research was supported by the Homeownership Preservation Foundation. The UK research is funded by the Friends Provident Foundation.

4. State laws were compiled from public sources, including RealtyTrac, Pence (2006), and Pew Center for the States (2008). The data are summarized in a table which the authors are happy to provide upon request.

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