Homeowner Reemployment:

Reducing Foreclosures by Addressing Their Biggest Root Cause

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In 2012, 2.3 million U.S. homeowners went through a foreclosure. Though that pace represents an improvement of what we've seen since the collapse of the real estate bubble, it still presents a daunting burden to American mortgage holders and their lenders.

Unfortunately, most efforts to ease the pace of foreclosures have focused on the expense side of the mortgage equation—that is, reducing homeowner spending via mortgage modification and education aimed at helping homeowners curb other personal expenses.

The lackluster results of these efforts suggest a misplaced emphasis. Consumed by initiatives that address the symptoms of mortgage distress, what's been missing—until now—is a focus on their single greatest cause: unemployment.

An innovative program piloted and then fully implemented by Fifth Third Bancorp, in partnership with national reemployment service firm NextJob, suggests that efforts to help homeowners find jobs can be both effective and financially viable.

Common Foreclosure Remedies Have Missed the Target

While loan modification program results have shown some improvement over the past few years, they are still falling well short of their expectations. Indeed, more than one in five homeowners re-default within 12 months of modification as of the third quarter of 2012, according to the U.S. Department of the Treasury. [1]

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[1] As of the third quarter of 2012, the third quarter, 2011 re-default rate was 22.2%. US Department of the Treasury, Comptroller of the Currency, Administrator of National Banks, OCC Mortgage Metrics Report, Disclosure of National Bank and Federal Savings Association Mortgage Loan Data, Third Quarter 2012, Table 25, Modified Loans 60 or More Days Delinquent, P. 34

When you consider that approximately 50 to 60% of all mortgage defaults are triggered by job loss, it's not surprising that loan modification has had limited success. Jay Brinkman, Chief Economist for the Mortgage Bankers' Association, summarizes the dilemma: "When it's a loan structure issue, you can deal with that, but when it's an unemployment issue, unless you go out and find them a job there's not much you can do…eventually that loan will go into foreclosure."

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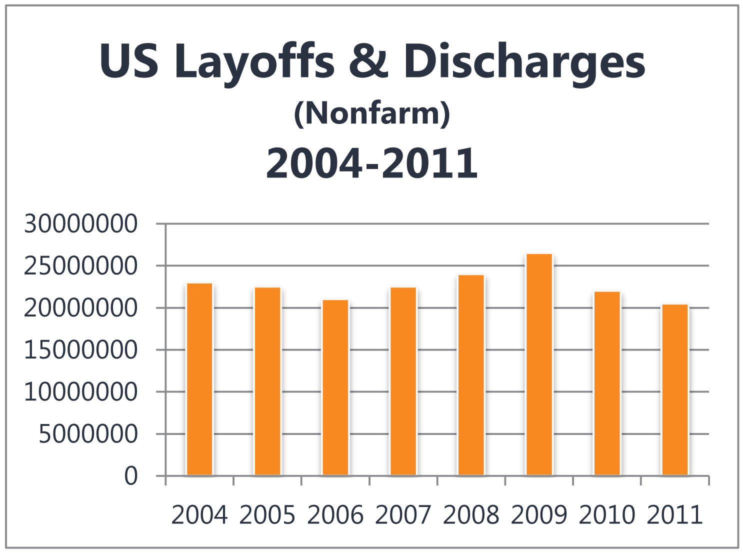
Mortgage forbearance programs—under which lenders temporarily suspend monthly payment requirements—do take unemployment into account, typically offering homeowners three to six months to regain a firm financial footing. However, they do so in an environment where the average duration of unemployment, is 7.8 months.[2] Unless a homeowner has significant savings and has been able to make payments for the majority of their unemployment, three to six months of forbearance may merely delay the inevitable.

While the nation is recovering from the worst economic downturn since the Great Depression, it's important to note that, even in more benign economic times, unemployment is surely a major driver of mortgage distress. Consider that, in the worst year of the recession, 2009, in an economy with 138 million jobs, U.S. workers experienced over 27 million involuntary job losses, according to the Bureau of Labor

[2] Mean duration of unemployment for January 2013 was 33.6 weeks, not seasonally adjusted. US Department of Labor, Bureau of Labor Statistics Economic News Release, Table A-12. Unemployed persons by duration of unemployment, January 2013.

Statistics.[3] In the pre-recession year of 2006, that number was only 21% lower, at 21 million.



Source: US Bureau of Labor

While modification, forbearance, refinancing and credit counseling programs can help homeowners, they're clearly not enough to stem the foreclosure tide. In this sea of private and public foreclosure prevention programs, we've largely overlooked the income side of the homeowner's mortgage equation. In doing so, we've missed the root cause of many re-defaults and foreclosures and thus a significant opportunity to have a meaningful impact on the problem.

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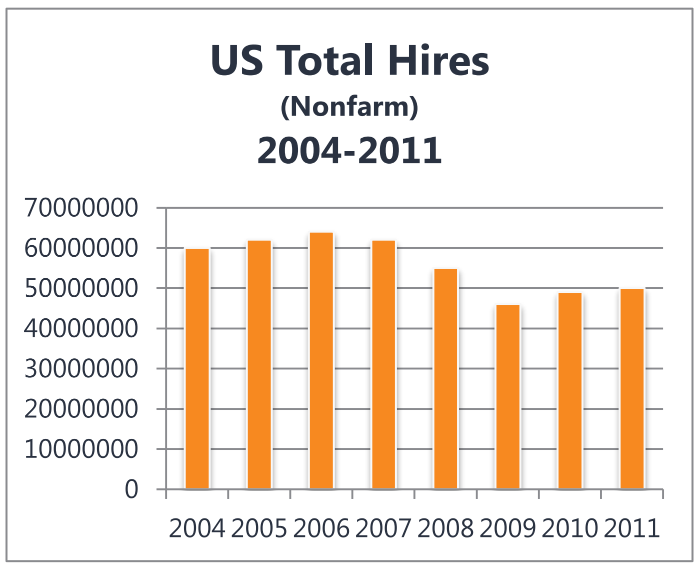
[3] US Department of Labor, Job Openings and Labor Turnover Survey, Total Nonfarm Layoffs and Disccharges

Considering that job loss is a common phenomenon even during periods of economic growth, an effective remedy for homeowner unemployment will continue to have value long after the nation has fully recovered from its most recent recession.

Reasons for Optimism About Homeowner Reemployment

In an environment of elevated unemployment, it's easy to grow pessimistic about the prospect of helping jobless homeowners return to the workforce. However, our economy, while sluggish, continues to be highly dynamic, creating many more job openings than is commonly understood. Seeing the opportunity requires an understanding of two key drivers: total jobs and total hires.



Source: US Bureau of Labor

In each year of the recession, U.S. employers made nearly 50 million hires in an economy of about 140 million jobs. How can we be hiring millions and losing jobs at the same time?

The answer is that hiring is driven by more than the total number of jobs. It is also driven by "churn" - the natural number of business startups and failures as well as voluntary separations, relocations, deaths, terminations and retirements. Each creates the opportunity for a hire. And if you're an unemployed homeowner hoping to be hired, the number of hires is far more important than the number of jobs.

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Job Search Skills Training. The teaching of techniques to find and win an available job opening is a well-developed field of expertise and studies find consistently positive results. Outplacement, which involves job coaching of laid off employees, has existed since the 1950s and has become a significant industry in the U.S. and abroad, serving the majority of Fortune 500 companies.

There are a number of public sector studies on job search skills impact on length of unemployment. In 2011, the U.S. Government Accountability Office studied public sector reemployment programs, which are less intensive than typical outplacement.[4] The job search counseling in the study generally involved an initial one-and-a-half-hour session with a staff member and, in Nevada, drove a 13% reduction in unemployment claim duration.

Within a similar program, Utah, noted for its program best practices by the GAO study, introduced NextJob's online reemployment training program. There, in a control group study, the online modules alone drove an additional 7% reduction in participants' unemployment claims. Taken together, and assuming no additional impacts from synergies of combining the two reemployment strategies, the studies suggest that

[4] Impaq International, **IMPACT OF THE REEMPLOYMENT AND ELIGIBILITY ASSESSMENT (REA) INITIATIVE,** June 2011, Task Order No: DOLF091A21507, Eileen Poe-Yamagata, Project Director, Jacob Benus, Principal Investigator, Nicholas Bill,Hugh Carrington, Marios Michaelides, Ted Shen.

combining a limited amount coaching with online job search training can drive a total reduction in unemployment of 20%. More intensive programs would have more impact.

How Reemployment Programs Change the Odds for the Jobless

A majority of job seekers appear to suffer from a major skill gap: the skill of conducting an effective job search. While the average worker will change jobs 13 times in a lifetime, search skills are rarely taught in any depth in high school, community college or at a university. Meanwhile, with limited resources, most state workforce agencies are able to meaningfully train less than 10% of all job seekers in job search.

In partnership with the state of Utah, NextJob studied job search skills in a 2011 control group study of job seekers. The study tested 507 predicted long-term unemployed unemployment insurance claimants. The state tracked job seeker progress, through the training system, in real time.

Education. At the start of the training, the system asked each job seeker to assess their skills in seven areas. Job seekers rated their preparedness at the equivalent of a D+, indicating a weakness in resume writing, job board searching, interviewing, networking, etc.

Job seekers rated their preparedness at the equivalent of a D+, but quickly moved to a B+ with the right training.

While job seekers scored low on preparedness, it was not difficult to improve their skills: On completion of the training, job seekers rated their new preparedness at a B+. Through NextJob's online job search skills training, job seekers improved their preparedness in four or more key areas by an average of 31% in just two weeks. NextJob ran a similar study in Mississippi and found comparable results.

One reason job seekers tend to score low on preparedness is that the keys to effective job search are not obvious. Dick Bolles, author of the best-selling book What Color is Your Parachute and a man who's considered the grandfather of job search, outlines the likelihood of success by type of job search activity:

- Researching job posting - 4-10%
- Posting or mailing your resume to employers - 7%
- Making targeted calls to employers you've researched - 65%
- Doing extensive homework on yourself and researching and calling employers - 86%[5]

It's interesting to note that the two activities that most job-seekers intuitively concentrate on—researching postings and submitting resumes—have the least impact on success. By equipping job seekers to competently execute more fruitful strategies like targeted phone calls and self-evaluation, it's possible to achieve a substantial increase in results.

Motivation. In addition to job search skills, it's also important to address job seeker's motivation and morale. Job seekers also often suffer from a lack of motivation. For example, in the Utah study, job seekers faced the loss of approximately $300 per week in unemployment benefits if they didn't participate in the training. Even so, almost a third of the claimants in the Utah study initially chose not to participate in the job search activity. However, after their claims were suspended, 25% became re-engaged and completed their training, while engaged participants voluntarily went on to complete 36% more training modules than required. It appears that, as with other areas of life, we

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[5] *What Color is Your Parachute*? 2013, Richard Nelson Bolles, Ten Speed Press, pp. 25-26, 32-35.

can lose motivation when we don't know what we don't know. But when we realize the scope of our ignorance, it is much easier to be motivated to learn.

Job seeker motivation is also likely deeply impacted by depression. Job loss is one of life's greatest stresses, ranking closely with divorce and loss of a loved one. Studies show that unemployment doubles a person's likelihood of becoming clinically depressed[6] and triples their likelihood to abuse alcohol. This is natural after losing self-esteem, a daily routine, purposeful activity, income, predictability and a sense of security that comes with employment.[7] Meanwhile, news coverage that paints an overly pessimistic picture of the labor environment cultivates a feeling of hopelessness.

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Given these dynamics, a comprehensive approach to reemployment goes well beyond training, addressing the morale and motivation challenges with 1) one-on-one coaching, which extends beyond job search to encompass related personal challenges and 2) interaction with fellow job seekers, which helps address an unemployed individual's sense of isolation while giving them an opportunity to learn from their peers.

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[6] David Dooley, Ralph Catalano and Georjeanna Wilson, "Depression and Unemployment: Panel findings from the Epidemiologic Catchment Area study" *American Journal of Community Psychology, Vol. 22, No.6, Dec. 1994*, 745-765.

[7] Woolston, Chris, "Why Unemployment is Bad for Your Health," Blue-Cross, November 6, 2000, http://blueprint.bluecrossmn.com/topic/unemployment (7/2/02), p. 2.

Fifth Third Bank: Setting an Example for the Mortgage Lending Industry

Fifth Third Bank is a diversified financial services company headquartered in Cincinnati, Ohio which, as of December 31, 2012, had $122 billion in assets and 1,324 full-service banking centers. Recognizing that job loss accounts for up to 50% of mortgage delinquencies and that lenders can lose over $50,000 on every foreclosure—Fifth Third Bank decided to test NextJob's Homeowner Reemployment program focusing on unemployed customers who were at serious risk of default on their mortgages. To our knowledge, this was the first of its kind in its industry.

Partnering with NextJob, a national reemployment services firm, the bank initiated its test in January 2012, and piloted the program throughout the remainder of that year. The NextJob service included:

- One-on-one coaching on topics from career direction to social media to interviewing
- NextJob's proprietary online job search training program, including its resume builder
- Weekly job search webinars in a virtual job club setting

Nearly 40% of the pilot participants were fully employed after six months.

On average, the selected homeowners had been out of work for 22 months. After being provided NextJob's reemployment services, nearly 40% of the pilot participants were fully employed after six months. With the concept validated, Fifth Third Bank moved the program out of pilot phase and incorporated it into the way the company does business.

A Promising Role in Mortgage Lending

It may be some time before we experience the levels of unemployment and foreclosures we've witnessed during the Great Recession and its aftermath. History suggests that we will, however, continue to have significant levels of both and they'll continue to be correlated to one another.

Beyond the impacts on a bank's foreclosure rate, Homeowner Reemployment offers significant opportunities for strengthening customer relationships, lifting retention rates, aiding acquisition campaigns and building goodwill in the community. With involuntary job losses of over 20 million per year, every lender has a meaningful subset of its customer population who lose jobs every year.

As homeowner reemployment is embraced by the lending industry, it will likely be refined and woven firmly into the industry's business models.

A Better Way to Prevent Foreclosures

After experimenting with various foreclosure prevention programs that focus on the symptoms of mortgage distress, the American lending industry seems poised to address the principal cause of it head-on. Through practical application within an innovative bank, the value of homeowner reemployment programs has been validated. The only question now is the pace at which other financial institutions will adopt this financially viable, common-sense approach to foreclosure prevention.

NextJob is a nationwide reemployment services company focused on full employment. Founded on the Golden Rule, its mission is to provide creative solutions for employers, lenders, government and others to help job seekers land jobs and avoid the many consequences of unemployment. NextJob's service provides high quality, one-on-one job coaching and multimedia online learning that is highly effective, affordable and accountable.

To learn more about how lending institutions and their customers can benefit from a Homeowner Reemployment program, call (877) 290-7888 or email info@nextjob.com.