

Another Crisis in the Making!

How the Subprime Mortgage Industry is Sandbagging Katrina-affected Homeowners

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a report by

ACORN

The Association of Community Organizations for Reform Now

and

ACORN Housing



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Introduction

Despite the public announcements by banks and lenders offering relief to homeowners affected by Hurricane Katrina, many African-American homeowners from New Orleans will not benefit from these announced policies. This is due to the high percentage of African-American homeowners who have higher cost subprime mortgages, and the failure of subprime servicers to offer the same assistance to their customers as prime servicers.

On August 29, Hurricane Katrina devastated an area of the Gulf Coast extending from Greater New Orleans east to the Florida state line. The subsequent levee breaks in New Orleans, combined with the ineffective governmental response, is believed to have resulted in 1 million people having fled the area, with approximately half of those from the City of New Orleans.

The Mortgage Bankers Association estimates that Katrina could affect 360,000 residential mortgages. The National Association of Home Builders says 275,000 homes were destroyed in Alabama, Louisiana and Mississippi. In New Orleans, nearly 200,000 homes were damaged, with early estimates placing the number of homes destroyed at 60,000. Previously, the worst disasters in the United States destroyed about 38,000 homes (the Chicago fire and the San Francisco earthquake). In 1972, Hurricane Andrew destroyed about 28,000 homes in south Florida.

For the ACORN family of organizations, Katrina was personal. Our national financial and legal support operations were based in New Orleans. All together, including the housing counseling and organizing staff, we had 85 employees working out of our office at 1024 Elysian Fields, near the corner of North Ramparts. The local ACORN chapter had nearly 9,000 members, with over half of those located in the hardest hit areas of the lower ninth, ninth, and seventh wards. Local 100 of the Service Employees International Union, founded and directed by ACORN chief organizer Wade Rathke, represented 1000 workers in the city, including the garbage workers and workers at the Regional Transportation Authority.

In Katrina's wake, a number of financial institutions responded quickly with announcements of how they would help their affected customers. On August 31, the nation's two largest mortgage buyers Fannie Mae and Freddie Mac both announced relief measures aimed at helping families affected by the hurricane to keep their homes.

Freddie Mac instructed servicers of Freddie Mac-owned mortgages to suspend collection of payments and waive late fees for at least three months on all loans and up to an additional nine months on a case-by-case basis. Freddie Mac also gave servicers the option of returning September mortgage payments to affected homeowners.

Fannie Mae allowed servicers to suspend mortgage payments and reduce payments for 18 months or more, depending on the borrower's circumstances. In both cases the agencies requested that its servicers temporarily stop reporting late or missed payments by affected homeowners to the credit bureaus



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Most banks and servicers of prime loans have followed Freddie and Fannie's lead and are deferring payments for 90 days on home mortgage, home equity, and HELOC loans. They are also not assessing late fees and are not reporting late pays to credit agencies during the 90 days.

On the other hand, most subprime servicers are only suspending payments, late fees, and credit reporting for 30 days, and many of these are only granting relief on a case-by-case basis. Some subprime servicers say they will extend relief after 30 days "if conditions merit"; however, a few have said that 30 days is the maximum they will grant.

There are also large differences in the customer service provided to hurricane-affected homeowners, with the prime servicers providing better treatment, attention, and concentration.

We became aware of these disparities through first-hand experience. On September 6, ACORN Housing dispatched a team of senior housing counselors to Houston to assist our Houston-based staff in helping homeowners displaced by the hurricane. In the first two weeks they counseled almost 500 displaced homeowners. During this time we have also contacted 42 lenders regarding their policies for affected homeowners. Their responses are documented in this report.

The policies of how subprime lenders treat hurricane-affected homeowners is particularly significant due to the large concentration of subprime loans among African-Americans. Using data released recently by the Federal Reserve, we found that subprime loans accounted for almost half of all the mortgages made to African-Americans.

Subprime loans are intended for people who are unable to obtain a conventional prime loan, and the higher interest rates are supposedly to compensate for the potentially greater risk that these borrowers represent. Predatory lending occurs when loan terms or conditions become abusive or when borrowers who would qualify for credit on better terms are targeted instead for these higher cost loans.

Many in the lending industry argue that the disproportionate concentration of subprime loans among minority borrowers is only a reflection of the greater risk that these borrowers represent based on their lower credit ratings. However, Fannie Mae has stated that the racial disparities in subprime lending cannot be justified by credit quality alone and has estimated that as many as half of the borrowers in subprime loans could have instead qualified for a lower cost mortgage¹.

Hurricane Katrina has forced America to look at the role of race in our society. Many people will never forget the images on TV of African-Americans abandoned and neglected in New Orleans, left to die in a way so inhumane that it is unimaginable it would have been allowed to happen had the evacuees been white.

¹ "Financial Services in Distressed Communities", Fannie Mae Foundation, August 2001.



Subprime Lending In New Orleans



In response to the growing concern about predatory lending and discriminatory pricing, the Federal Reserve Board issued new guidelines for the Home Mortgage Disclosure Act (HMDA). Starting in 2004, lenders had to report loans that had a high rate (and so were subprime), making possible for the first time a statistical analysis of the types of loans a lender originates².

► **Almost half of all the mortgages made to African-Americans in the New Orleans metropolitan area³ in 2004 were high-rate subprime loans.**

► **African-Americans in the New Orleans area were three times more likely than whites to get a higher rate subprime loans.**

Conventional Purchase, Refinance, and Home Improvement Loans

46.20%	15.76%
of mortgages to African-	of mortgages to
Americans	Whites
were high-cost	were high-cost
subprime loans	subprime loans

► **The racial disparity is even greater when just reviewing home purchase loans⁴.**

► **African-American homebuyers were over four times more likely than white homebuyers to receive a high rate loan.**

Conventional Purchase Loans

37.48%	9.17%
of mortgages to African-	of mortgages to
Americans	Whites
were high-cost	were high-cost
subprime loans	subprime loans

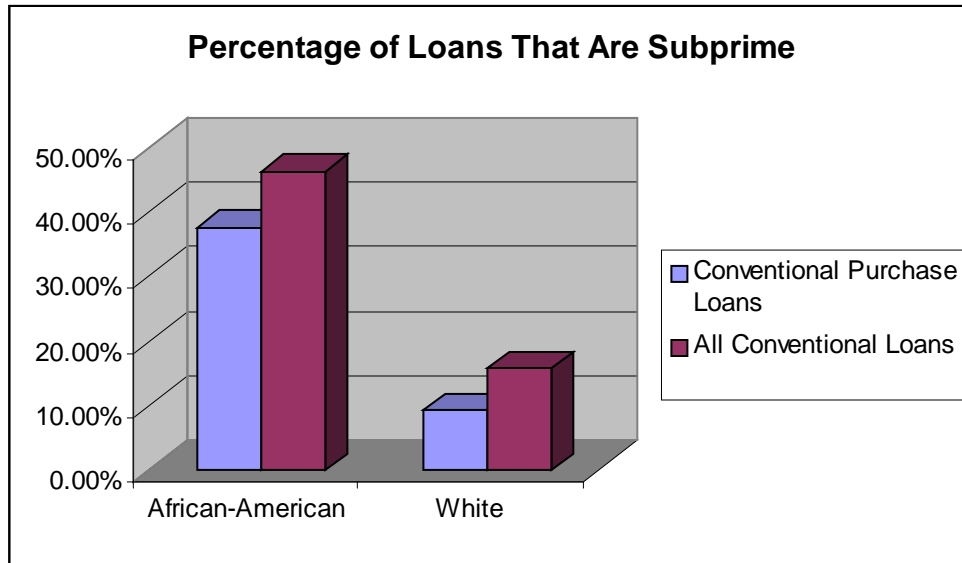
² On average in 2004, high rate loans were defined as first mortgages with Annual Percentage Rates (APRs) above 8% and second mortgages with APRs above 10%.

³ The New Orleans Metropolitan Statistical Area consists of Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. James, St. Johns, and St. Tammany parishes.

⁴ Conventional first-lien purchase loans.



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African-Americans received a much larger share of high rate loans than of prime loans.

African-Americans received almost half, 45.5% of all subprime loans made in New Orleans in 2004. However, African-Americans received a three times smaller share of the prime loans made in New Orleans – just 15.7%, or one out of six prime loans.

In contrast, White borrowers received a much larger share of prime loans than of subprime loans. Whites received 84.2% of all prime loans made in New Orleans in 2004 compared to 53.1% of the subprime loans.

The disparity for African-Americans is greater when reviewing just conventional purchase loans. African-American homebuyers received a 3.6 times greater share of subprime loans than of prime loans. African-Americans got 46.0% of the subprime purchase loans made in New Orleans in 2004 and just 12.8% of the prime purchase loans.

White homebuyers received 85.6% of the prime conventional purchase loans compared to 52.0% of the subprime purchase loans.



Mortgage and Credit Issues in Katrina's Wake



OBSERVATIONS FROM THE TRENCHES

On September 6, ACORN Housing dispatched a team of senior housing counselors to Houston to assist our Houston-based staff in helping homeowners displaced by the hurricane. After discussions with the Mayor's office and the Red Cross, we were invited to establish a base for our work at the George R. Brown Convention Center, which is where evacuees have been directed to go for information and assistance.

From these first 2 weeks of working in the trenches, we have made the following observations about the displaced homeowners and their mortgage creditors:

1. Most displaced homeowners do not realize that they need to contact their mortgage servicer, and other creditors. Of the almost 500 displaced homeowners we have talked to, only 19 realized that they needed to contact their mortgage lender, and just 9 had already done so. Partly this is a matter of priority—people are in shock and overwhelmed with taking care of their most immediate needs. We believe that once people get somewhat settled, many will think to contact their lenders. However, the majority of displaced homeowners we talked to assume that their lender would know that they had problems, or that their insurance company would deal with their lender. They did not realize that it was their responsibility to contact their mortgage servicer.

2. Most displaced homeowners are dispersed; outreach to educate and assist displaced homeowners is needed now. Many displaced homeowners evacuated prior to Katrina, and aren't in shelters. In Houston, the vast majority of displaced homeowners we have talked to are staying with friends, relatives, or in hotels. (We have identified several motels that are filled with displaced homeowners.) This is less the case in Louisiana, where ACORN organizers have found larger numbers of displaced homeowners living in shelters. We have found that the dispersed evacuees do drive in to the Red Cross and FEMA information and processing sites to file claims, and that these centers are ideal for identifying and assisting displaced homeowners. However, we have also found that it is highly effective to flyer the hotels with leaflets telling displaced homeowners to call ACORN Housing for help in contacting their mortgage and other creditors.

3. Of the 42 lenders & servicers contacted, only 3 were initially providing automatic payment deferments. Whitney Bank and Hibernia Bank—both New Orleans based lenders—and Citigroup (Citimortgage and Citifinancial) were the only lenders we contacted who initially stated that they have made arrangements to automatically defer home mortgage, home equity, and HELOC loans for borrowers, without the borrowers having to contact them. During this week, however, most other prime mortgage servicers said that they have "flagged" home loans in the affected zip codes, and are starting to automatically provide deferments of mortgage payments, without the borrower having to make a request.



4. In Houston, ACORN Housing is the ONLY agency on the ground assisting displaced homeowners to contact their mortgage servicers; no one is doing this in Louisiana. The major relief agencies are not assisting homeowners to contact their mortgage servicers, and other creditors, to seek payment suspension. This is understandable, given the immediate priority of dealing with the basic food, clothing, shelter, and health needs of the evacuees. The Red Cross and United Way recognize the value of our work, and have provided us with access and table space at their relief processing and claims centers. (Note: We have found that some insurance adjustors are also telling homeowners to contact their mortgage lenders.) In Louisiana, ACORN organizers have not found a single agency in Baton Rouge, Lafayette, Alexandria, or Lake Charles assisting homeowners to contact their lenders.

5. Prime mortgage servicers have largely followed the lead of Freddie and Fannie and are deferring payments and suspending foreclosure proceedings for 90 days on home mortgage loans, with deferments of up to 12 months being granted on a case-by-case basis. They are also not assessing late fees and are not reporting late pays to credit agencies during the 90 days.

6. A few prime lenders have posted information on their web sites and have set up special Katrina hotline numbers for their customers to call in on, with specially trained staff answering the calls coming in on those numbers. The prime lenders with large loan volumes in New Orleans have all done this (Chase/Bank One, Countrywide.) **However, far too many prime lenders are still routing Katrina related calls to their regular customer service call centers, where personnel have not yet been adequately trained.** For each client, it has taken our counselors an average of 30 minutes, being transferred an average of 3 times, to get confirmation of payment suspension from the mortgage servicer. Furthermore, many prime loan servicers have continued to insist on written authorization from the homeowner before they will discuss anything with an ACORN Housing counselor, even when we have make it clear that we are only seeking payment suspension, per lender policy, for a displaced Katrina borrower! We have been required to fax in the written authorizations to the servicing personnel, who then call us back—sometimes within hours, sometimes not until the next day.

7. Most Subprime mortgage servicers are only suspending payments, late fees, and credit reporting for 30 days. However, more than a few subprime servicers are only granting relief on a case-by-case basis. Some say they will extend relief after 30 days “if conditions merit”. Thus far, Citifinancial is the only subprime lender we have contacted that is automatically granting 60 days to borrowers in FEMA “Tier 1” areas. Many Katrina victims will fall through the crack and have their credit ruined unless the subprime industry comes up with a solution that recognizes and is informed by the enormity and severity of this disaster. With the exception of Citifinancial, WAMU/Long Beach Mortgage, and HFC/Beneficial, every subprime servicer we talked to requires the individual borrower to contact them before any relief is granted.

8. Many Subprime Lenders and their servicers have not established special Katrina hotlines, nor have they trained call center personnel on the relief that is being offered to Katrina victims, nor have they posted information on their websites. The only two subprime servicers who have consistently worked with our counselors on Katrina cases have been Ameriquest and Countrywide.



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9. **Most credit card companies are only granting a 30-day suspension of payments, late fees, and credit bureau reporting.** After 30 days, extended relief will be granted to borrowers on a “case by case basis”. Many Katrina victims will fall through the crack and have their credit ruined unless the credit card companies come up with a solution that recognizes and is informed by the enormity and severity of this disaster.

10. **The scam artists are already at work.** By the end of last week, in both Houston and Baton Rouge, we encountered teams of scam artists outside of the relief centers who were offering cash for house deeds. Armed with stacks of hundred dollar bills and quit claim deeds, these vultures were offering \$5-\$10,000 on the spot for a flooded house, knowing that they will be able to collect \$26,000 in grants from FEMA for each house.

DISPARITIES IN TREATMENT BY PRIME AND SUBPRIME LENDERS

ACORN Housing’s experience working with affected homeowners indicated to us that subprime mortgage servicers were not extending the same relief measures to their customers as prime mortgage servicers were.

This led us to conduct a survey of mortgage companies to determine what steps each servicer was taking to help their customers and to see if our observations about the subprime industry were correct.

The survey found that the subprime mortgage industry is offering suspended mortgage payments, late fee waivers, and suspension of credit bureau reporting *for the month of September only*, while the prime mortgage industry is granting these same relief measures, along with a moratorium on foreclosures, for 3 months, and in some cases for up to 12 months. Furthermore, the group found that most prime mortgage servicers are automatically granting relief to homeowners living in the FEMA designated disaster area; whereas, much of the subprime industry is only offering relief to those displaced homeowners who call and request it. (A list of 40 mortgage lenders surveyed and their policies related to Katrina is included at the end of the report)

The unequal and disparate treatment of Katrina victims is perhaps best seen at Wells Fargo. Displaced homeowners with loans from Wells Fargo Mortgage, the company’s prime mortgage channel, are being provided the automatic 90-day deferment. Displaced homeowners with loans from Wells Fargo Financial, the company’s subprime mortgage unit, are only being offered relief on a case by case basis, and only if they contact the company.

Our analysis of the mortgage data recently released by the Federal Reserve demonstrates the unequal impact these policies will have on African-Americans. According to the data, over 40% of Wells Fargo Financial’s loans in the New Orleans area were made to African-Americans, compared to just 20% of Wells Fargo Home Mortgage’s loans.



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More than a third, 35.6%, of all home mortgage loans that Wells made to African Americans were through Wells Fargo Financial, while just 18.8% of the mortgage loans made to whites were through this subprime channel.

In addition to the different terms offered to their borrowers, we also found clear differences between the customer service programs at Wells Fargo Financial and Wells Fargo Home Mortgage. Calls to Wells Fargo Home Mortgage's hurricane hotline are answered immediately by a live person who informs the homeowner of the automatic 90-day deferment.

Callers to Wells Fargo Financial's hurricane hotline must navigate their way through an automated phone system which lists their choices. Before they are told the number to press to discuss their payment options, they are first offered the choice to apply for a new loan. When a customer chooses the option to discuss their payment options, they are then instructed to enter their loan number or social security number, so that the customer service representative can see their account information.



What Needs to Be Done

- 1) The subprime mortgage industry, and particularly the Wall Street investment firms that securitize subprime loans, should provide the same relief package that most prime lenders are offering to homeowners displaced by Hurricane Katrina. This would include:
 - a. Immediate suspension of mortgage payments for 90 days for all, and up to 12 months on a case by case basis.
 - b. Waiver of all late fees for the duration of the payment suspension period.
 - c. No adverse reporting to credit agencies the duration of the payment suspension period.
 - d. Moratorium on foreclosure for the duration of the payment suspension period.
- 2) Fair Isaacs Company should adopt the measures proposed by Consumers Union to adjust its credit scoring system to protect the credit profiles of all people who lived in the areas affected by Katrina.
- 3) Fannie Mae, Freddie Mac, HUD and other housing finance institutions should be engaged in conversations to determine what happens to displaced homeowners after the 90 day payment suspension period ends. It is already very clear that tens of thousands of homeowners will not be able to move back to their homes, and will not have had their insurance claims settled or their FEMA grants dispersed.
- 4) Throughout Louisiana and Houston, teams of outreach workers should be sent to the hotels (and Louisiana shelters) where displaced homeowners are staying, to pass out informational flyers warning them of the scam artists and telling them how to get help in contacting creditors.
- 5) In Baton Rouge, Lake Charles, and Lafayette, teams need to be put in place at the Red Cross and FEMA claims centers to offer assistance to displaced homeowners, similar to what we have done in Houston.
- 6) Use mass media & grassroots outreach to inform displaced homeowners of the need to contact their mortgage services and other creditors, to beware of selling their homes for quick cash, and to guide them to a call center for assistance. The ACORN mobile action center has begun setting up at evacuee shelters throughout the state of Louisiana. ACORN's first step to involve broadcast journalists was taken last Thursday, when we appeared on the Tavis Smiley radio show to discuss how the scam artists are already preying on homeowners displaced by Katrina.
<http://www.tavistalks.com/TTcom/TSradio/ACORN091605.html>.
- 7) Disseminate phone numbers of mortgage lenders & servicers. ACORN Housing has developed a list of contact numbers, including special Katrina hot line numbers, for all home loan lenders we have encountered while working with displaced Katrina homeowners. We are updating this list daily. We will post the list on our website, and distribute it to all HUD approved housing counseling agencies, public housing authorities, and relief agencies in Louisiana and Texas.



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- 8) A call center should be set up that will provide information to displaced homeowners, and to connect displaced homeowners with ACORN Housing and other HUD approved Housing Counseling Agencies in the region.
- 9) Build a database of displaced homeowners, with contact information. When the initial 30 to 90 day period of suspended payments has ended, displaced homeowners will need to be reminded to once again contact their mortgage servicers and other creditors.
- 10) In Houston, starting next week, ACORN Housing will begin to hold weekly home buying seminars for the large number of displaced homeowners who have indicated to us that they want to buy a house and permanently settle in Houston. Already, 110 displaced homeowners have registered for the first class. These evacuees will clearly have a unique set of challenges to overcome before they can buy another house.
- 11) Engage local, state, and federal government officials about plans for allowing homeowners back into their neighborhoods, and for rebuilding homes.
- 12) Begin discussions with the GSEs, lenders, philanthropic organizations, intermediaries, and private investors about raising the massive amounts of capital that will be needed for redevelopment and permanent mortgages. ACORN is seeking to play a leading role in New Orleans redevelopment and ensuring that low-income neighborhoods and families have a voice in how things are done.
- 13) Work with the other organizations involved in providing temporary shelter for Hurricane victims -- Mayors, intermediaries like Enterprise and LISC, state housing agencies, Home Aid, etc, to get the word out about what people need to do to be able to delay their mortgage payments.



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Lender	Current Policy
Ameriquest Mortgage / Argent Mortgage Company	Suspension of payments, late fees, and negative credit reporting for 30 days, with extensions to be determined on a case by case basis;
Bank of America	90 days no payments, late fees, or negative credit reporting
Bank One (now merged with Chase)	90 days no payments, late fees, or credit reporting
Centex Home Equity	Forbearances on a case-by-case basis; late fees and negative credit reporting are on hold; 30 day moratorium on foreclosures
CitiFinancial/ Citifinancial Mortgage	60-days no payments, late fees, or credit reporting.
CitiMortgage/ Citi Home Equity	90-day moratorium on foreclosures. Forbearance available on case-by-case basis. No late fees, credit reporting for 90 days.
Countrywide Financial Corp.	90-day forbearance – no payments, late fees, or negative credit reporting The Foreclosure Workout Unit is handling these calls;
Decision ONE Mortgage	90 days no payments, late fees, or negative credit reporting
EMC Mortgage Corporation	90 days no payments, late fees, or negative credit reporting
Encore Credit Corporation	Forbearances on a case-by-case basis; late fees and negative credit reporting are on hold; NO special # has been established to assist hurricane victims more efficiently- they have to go through Customer Service.
Equifirst Corporation	90 days no payments, late fees, or negative credit reporting Customers can only call the Customer Service line (there is NO hotline) M-F 8-5 EST
Fidelity Homestead	90 days no payments, late fees, or negative credit reporting



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GMAC Financial Services	Forbearance on case-by-case basis
GMAC Mortgage	90 days no payments, late fees, or negative credit reporting;
Green Tree	30 to 90 days no payments, late fees, or negative credit reporting on a case-by-case basis
Hibernia Bank	90 days no payments, late fees, or negative credit reporting The bank also will grant up to 18 months of temporary forbearance to repay suspended payments, also with no credit reporting.
Homecomings	90 days no payments, late fees, or negative credit reporting
HomeEq Servicing	Forbearance on case-by-case basis. No late fee, negative credit reporting for 90 days.
Household and Beneficial	30 days no payments, late fees, or negative credit reporting
IndyMac Bank	90 days no payments, late fees, or negative credit reporting
Irwin Mortgage	Wouldn't disclose their policy.
JPMorgan Chase & Co. / Chase Mortgage Services / Chase Bank USA	90 days no payments, late fees, or negative credit reporting
Landmark Mortgage Corporation	Wouldn't disclose their policy.
Liberty Bank	60 days no payments, late fees, or negative credit reporting
Litton Loan Servicing	Wouldn't disclose their policy.



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Midland Mortgage Co.	Forbearance on case by case basis through Delinquency Assistance Center
MortgageIT	Forbearance on case-by-case basis. No late fees or negative credit reporting.
National City	90 days no payments, late fees, or negative credit reporting; a balloon payment is set up for after the 90 days.
New Century	Forbearance on case by case basis
NovaStar Mortgage	60 days no payments, late fees, or negative credit reporting
Option One Mortgage Bank	Forbearance on case-by-case basis. Late fees and credit reporting on hold; NO special # has been established to assist hurricane more efficiently- they have to go through Customer Service.
Regions Mortgage	90 days no payments, late fees, or negative credit reporting
Select Portfolio Servicing, Inc.	30-90 days forbearance on case-by-case basis; no late fees; no credit reporting;
Standard Mortgage Corp.	90 days no payments, late fees, or negative credit reporting
Taylor, Bean, & Whitaker	90 days no payments, late fees, or negative credit reporting
Vanderbilt Mortgage & Finance, Inc.	Forbearance on case-by-case basis.
Washington Mutual	120 days no payments, late fees, or negative credit reporting



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Wells Fargo Home Mortgage	90 days no payments, late fees, or negative credit reporting
Wells Fargo Financial	Forbearance on case-by-case basis; late fees and negative credit reporting is on hold. Customers who call hurricane hotline are first offered option to apply for a new loan before they get to speak to someone regarding their current mortgage.
Whitney Bank	90 days no payments, late fees, or negative credit reporting



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ACORN, the Association of Community Organizations for Reform Now, is the nation's largest community organization of low- and moderate-income families, with over 150,000 member families organized into 800 neighborhood chapters in 80 cities across the country. Since 1970 ACORN has taken action and won victories on issues of concern to our members. ACORN's priorities include: better housing for first time homebuyers and tenants, living wages for low-wage workers, more investment in our communities from banks and governments, and better public schools. ACORN achieves these goals by building community organizations that have the power to win changes -- through direct action, negotiation, legislation, and voter participation.

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In 1986, ACORN Housing originated from neighborhood-based campaigns conducted by ACORN. ACORN Housing is a national, non-profit organization which provides housing counseling and education services to low and moderate income families. Since its inception, ACORN Housing has grown to have offices in 32 cities and provides mortgage counseling to more individuals than any other organization in the country. ACORN Housing is also the national leader in assisting victims of predatory lending by providing refinancing at improved terms, through loan modification, and by conducting outreach that teaches individuals to identify and avoid predatory loans. ACORN Housing has helped over 50,000 low and moderate income families realize their dream of buying a home.

