



DEPARTMENT // FROM THE OTHER SIDE OF THE AMERICAN DREAM

STORY BY // DEAN C. WILLIAMS, ESQ./CMB EXCLUSIVE TO DS News

# Prolonging the Pursuit of Happiness

Faced with a Raft of 'Helpful' Options from Numerous Entities, Today's Borrowers Are Missing Many Solvent Opportunities—and Certainly Aren't Smiling About It

Several years ago researchers sought to determine why, at a time when Americans were healthier and wealthier than at any period in history, they also consistently rated themselves as less and less happy. While they have more freedom and more options than ever before, the percentage of those who classify themselves as "very happy" has decreased while those classified as clinically depressed has increased.

**Maximizers vs. Satisficers**  
Swarthmore College psychology professor Barry Schwartz and fellow researchers tested individuals by asking them to answer a series of questions. These answers, in turn, were used to rate individuals as "maximizers" or "satisficers." Maximizers were characterized as people who always shoot for the best possible choice. Satisficers are happy with "good enough," regardless of the

other options out there. Once satisficers find something they like, they stick with it (picture here Elvis eating meatloaf every day at Graceland for a month, or Warren Buffett drinking his beloved Cherry Cokes for years), while maximizers are constantly on the lookout for the next great option (for those who have read Malcolm Gladwell's book "The Tipping Point," you'll know these people as "mavens"). Those are the extremes, with most of

us falling into a dimmer version of one of the two categories. By studying these two classifications of people, Schwartz and his colleagues made an important discovery: For maximizers, opportunity costs often ruin the happiness that comes with the freedom of choice. By making one selection, people are missing out on the opportunity to partake in the other options. And with greater knowledge of the diverse options out there

comes greater knowledge of what they're missing—in short, maximizers are prone to regret.

## A Taste of Tyranny

As reported in the *New York Times*, and as an example of this phenomenon and its implications, researchers set up a tasting booth within a California supermarket. Some shoppers approaching the booth found six types of jams to taste, while others encountered 24 different jams. Interestingly enough, 60 percent of the shoppers passing the booth stopped at the booth, while only 40 percent of those passing the more limited selection stopped. After stopping, however, only 3 percent of those with more options made a purchase, while nearly 30 percent of those with less options ended up making a purchase, according to the January 2001 article.

Rather than an opportunity for choice, Schwartz has termed this the "tyranny of choice." As can be seen in any market (or aspect of life, for that matter),

people are more afraid of losses than they are eager for wins. Faced with too many options, paralysis derives out of fear of making the "wrong" choice.

## Way Too Many Options

With the subprime meltdown winding its way from housing to banks to stocks, those at the epicenter of the crisis—borrowers in default, lest we be reminded—are getting more and more options for assistance. In contrast to the proverbial victim in distress who shouts for assistance but receives none because all the listeners presume someone else will come to their aid, borrowers in default have people streaming out of the buildings, a flood of people—some well intentioned and some not—swarming them and offering numerous options. Words like "workout," are thrown around, while aspiring late-night real estate moguls offer to buy your ugly house—and that's if you aren't already too frightened to pick up the phone. Considering Professor Schwartz's research, it

should come as no surprise that not enough borrowers in need are utilizing the services available to them.

While there should be no doubt that the current trend in cooperative solutions for borrowers is a good one, making the field of options less complex may be helpful. And so a new industry alliance is taking some of that proverbial jam off the table.

## Dialing for HOPE

The new primo player on the block is the HOPE NOW Alliance. Most Americans were alerted to its existence when President Bush encouraged those in need to contact the Homeownership Preservation Foundation's (HPF) help line, 888.995.HOPE. Unfortunately, Bush handed out the wrong number, directing people to a 1-800 line instead of 888, much to the surprise of a small faith-based institution that was not expecting a presidential endorsement that day. White House aides quickly corrected the error.

A broad alliance of trade associations, lenders, servicers,

consumer credit counseling entities, and other mortgage industry participants, HOPE NOW was formed last year under the direction of Treasury Secretary Paulson and former Housing and Urban Development (HUD) Secretary Alphonso Jackson. The stated mission of the alliance is maximizing the preservation of homeownership while minimizing foreclosures, which it accomplishes through massive borrower outreach efforts. Rather than have dozens, if not hundreds, of contact numbers floating around for distressed borrowers to choose from, HOPE NOW reduces the number of options in the hope that having one definitive number for borrowers to call will reduce the anxiety associated with choosing a number/resource to trust and thus increase the number of people making contact.

But for all the positive press HOPE NOW has received, it is important for us to ask if this is the right option for people in need. After all, the very premise behind the alliance presumes that these borrowers are victims.

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People deserve to be assisted because they were caught in a bad situation—perhaps made a bad choice. But what caused this situation in the first place? A speculative real estate market where true value is opaque and property is illiquid. In this system, borrowers are essentially gambling every time they buy a home—gambling that they paid the correct price and gambling that someone else would pay a comparable price if the need to sell arose. And so we offer these victims of gambling hope—or HOPE, if you will—but to what end? So we can sustain gambling? In order for the distressed borrower to keep making payments on a property of unclear value. Who does that benefit? Certainly not the borrower, nor the economy at large. Those who benefit from keeping the borrower committed to payments on a speculatively priced home are the same who benefit from the real estate gambling industry. Programs like HOPE NOW make it seem that all distressed borrowers can stay in a home they can't afford. This is no different than the hype (promoted by the same crowd) that real estate prices only go up. Homeownership continues to be promoted as a moral imperative above all others—static location takes precedence over relocation to a better job market, more personal freedom, and more manageable responsibility. The American Dream was not founded on the goal of a bigger house (contrary to marketing campaigns of late), but rather on freedom and self reliance.

With this understanding, it is not so far-fetched to hear the main criticism of HOPE NOW: that it may very well end up serving as no more than a public relations stunt to stem the wrath aimed at those proponents of the real estate promotional complex that make up the alliance. This is not to say that is the alliance's goal, but merely that HOPE NOW is a brand new program and needs to demonstrate results to prove its detractors wrong.

#### **Like a Good Neighbor?**

NeighborWorks is another significant player. In accordance with its government-funded roots, it lacks HOPE NOW's singular focus and offers assistance through a broad range of programs. It is perhaps best known of late for a series of truly haunting and compelling public service announcements produced in partnership with the Ad Council and the ubiquitous HPF (what the HPF lacks in effectiveness, as is demonstrated by its critical involvement in two of the key initiatives put forth by its larger partners). If you have not seen these ads, a look back in past issues of *DS News* or a visit to *DSNews.com* and the NeighborWorks Web site is highly recommended.

While HOPE NOW's mission is strictly focused on borrower outreach, NeighborWorks has a larger stated legacy of creating ways for homeowners to reside in affordable houses, enhance their lives, and bolster their communities. To this end, a

host of programs was designed to help educate potential homeowners, coordinate access to public housing, and promote affordable housing in communities nationwide. In this sense, NeighborWorks is taking a proactive approach to the foreclosure problem by trying to help borrowers make better, more educated decisions. For a borrower facing foreclosure, however, its focus is indirect. Through the NeighborWorks Center for Foreclosure Solutions, it helps to develop credit counselors who then assist troubled borrowers through other agencies. If you receive a letter from HOPE NOW and call HPF's hotline, you are likely going to visit with a NeighborWorks-trained counselor.

#### **Upon Closer Inspection**

Looking at these two large institutions—one brand new, the other decades old—one can't help but notice a few key points of interest. The first is that in today's effort to combat foreclosures, there isn't one entity taking on the whole problem—there's an interconnected web of entities tending to distressed borrowers' needs cohesively. HOPE NOW is promoting a hotline the HPF operates by utilizing NeighborWorks-trained counselors. At the same time, NeighborWorks and the HPF are part of the alliance supporting HOPE NOW. The nightmares faced by distressed borrowers are too great to face alone, and so instead of expecting them to independently seek assistance from each individual

entity, the backers of HOPE NOW have simplified the process for utilizing a powerful network of helpers.

A second notable point is the evolution of nonprofit assistance as it relates to the housing industry. It has much more evolving to do before it can help people buy smart and aid existing homeowners in distress. Instead of teaching people to swim, resources are shifting toward throwing them a life preserver. This is not to say that one is "better" than the other, only that as housing has taken a turn, not seen in some time, a new type of need has been observed and is being addressed. The default servicing industry can learn from this example. Rather than focusing on blaming different groups for the cause of the problem (the greedy originators, the pressured appraisers, the short-sighted brokers, etc.), it could focus on innovative solutions to the problem at hand.

HOPE NOW is a smart idea working to improve a bad situation within a fatally flawed system. Its backers should be applauded for using collaboration and innovation to aid those in need. But so long as we plow our resources into solutions that don't address the real problem—an illiquid real estate market based around speculative asking prices—we will only be delaying true progress in the name of political correctness. HOPE NOW offers an alternative that is unquestionably better than foreclosure, but it shouldn't be viewed as the solution to all the industry's ills. **DS**