NCLR
NATIONAL COUNCIL OF LA RAZA

Increasing Latino Homeownership Through Housing Counseling

Submitted to:

U.S. House of Representatives Committee on Financial Services
Subcommittee on Community and Housing Opportunity

Submitted by:

Lautaro Diaz
Deputy Vice President, Community Development

NATIONAL COUNCIL OF LA RAZA
1111 19th Street NW
Suite 1000
Washington, DC 20036
(202) 785-1670

Raul Yzaguirre
President/CEO

March 18, 2004

N C L R
NATIONAL COUNCIL OF LA RAZA

Introduction

On behalf of the National Council of La Raza (NCLR), I am pleased to present this statement for "Successful Homeownership and Renting through Housing Counseling." NCLR is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve life opportunities for the nation's Hispanics. As the largest national Hispanic constituency-based organization, NCLR serves all Hispanic nationality groups in all regions of the country through a network of more than 300 affiliate community-based organizations.

Homeownership counseling is a powerful tool that effectively moves low-income Latino families into homeownership, which in turn gives them the opportunity to build wealth and secure their financial futures. NCLR is one of the 18 national and regional intermediaries designated by the Department of Housing and Urban Development (HUD) to distribute funds to community-based organizations providing housing counseling services. Each intermediary distributes funds based on its own criteria and priorities; NCLR works through the NCLR Homeownership Network (NHN), which provides pre-purchase housing counseling services to more than 20,000 families annually. In addition, NCLR conducts research, advocacy, and policy analysis on Latino homeownership, housing discrimination, and access to financial services.

NCLR has an extensive history on the issue. From a public policy perspective, NCLR began advocating for more flexible underwriting guidelines and affordable housing products in the late 1980s. In the early 1990s, NCLR partnered with Fannie Mae and First InterState Bank to design and implement one of the earliest pilot projects to test the feasibility of new approaches to homeownership. In conjunction with the Arizona Housing Alliance, a coalition of NCLR affiliates, a model was implemented incorporating an affordable housing product with more flexible underwriting guidelines; pre-purchase housing counseling; and credit enhancements including downpayment assistance. Called "Home To Own," this pilot provided mortgages to nearly 500 families, all of whom earned below 80% of Area Median Income (AMI), with half going to families below 60% of AMI.

An independent evaluation conducted by the Morrison Institute for Public Policy found that the three most important factors that facilitated participants' successful transition to homeownership were: (1) in-depth, one-on-one housing counseling; (2) the provision of services by trusted community-based agencies; and (3) a more flexible, more affordable mortgage product. Somewhat surprisingly, the evaluation found that downpayment assistance had a negligible effect on successful participants' capacity to purchase their home. Subsequently, Fannie Mae and First InterState reported the delinquency and foreclosure rate for the Home To Own portfolio to be well below industry averages. The Home To Own experience convinced us that the combination of pre-purchase housing counseling provided by community-based groups, and more flexible, more affordable mortgage products (and underwriting guidelines) were the key building blocks for successful homeownership programs in the Hispanic community.

Latino Homeownership

Increasing Latino homeownership is critical to the financial stability of the Latino community. For most American families, a home is their primary asset; homeownership represents their single greatest wealth-building vehicle, allowing households to leverage equity to send children to college or start a business, and build strong and stable communities. While Latino homeownership increased by 94% between 1991 and 2001, only 48% of Latino families own their own home, compared to 75% of non-Hispanic White families. This lag in homeownership is the primary factor behind the 27 to 1 wealth gap ratio that currently exists between Whites and Latinos. There are several major barriers to increasing Latino homeownership levels, including lack of information and relationships with mainstream financial institutions; lack of affordability; systemic barriers; and the failure of the homebuying market to reach and serve the Latino community adequately.

- *Lack of information:* Many Hispanic families lack formal relationships with mainstream financial institutions; approximately 35% of Latino families, and 42% of foreign-born Latinos, do not have bank accounts.[1] Historically low levels of outreach from the financial services sector and a certain amount of mistrust within the community, especially for immigrant households who are more familiar with cash-driven economies, have contributed to the lack of information and access. However, because many first-time Hispanic homebuyers are also first-generation homebuyers – and one in ten first-time homebuyers is foreign-born – many Latinos do not benefit from advice on the homebuying process passed through family members or neighbors, as is common in other communities. This also means that Latinos are susceptible to unscrupulous lenders and dubious lending products that endanger the hard-earned savings and financial security of families.

- *Systemic Barriers:* Many Hispanic households have thin or no credit histories, which often result in artificially low credit scores, and research shows that one in four people are likely to have errors on their credit report. As a result, an otherwise mortgage-ready family may be unable to qualify for a loan, or may be paying too much for their financing. The financial services industry and community-based organizations are working together to establish alternative forms of credit and credit scoring to address this issue. However, even when such alternative underwriting systems are in place these loans require manual underwriting and do not earn commission-based loan officers high returns, and as such are often low priorities for many industry players. Further, significant evidence exists of discrimination against Latino families in the real estate and mortgage markets. As a result, Latinos do not receive their fair share of conventional loans and are overrepresented in the subprime market.

- *Affordability:* Although the Hispanic population is growing in many areas of the country, more than two-thirds live in five states: California, New York, Texas, Florida, and Illinois. California and New York, where more than a third of Hispanic households are concentrated, are two of the least affordable states in which to live, according to the National Low Income Housing Coalition. More than two in five Hispanic households, and more than a third of Hispanic owners, pay more than 30% of their income toward housing, the federally-recommended standard for affordability. Further, high rents in these markets contribute to low levels of savings that could be used for downpayment, closing costs, or the cash reserve necessary to close a mortgage loan.

- *Market Failure:* NCLR estimates that more than one million Hispanic families are mortgage-ready but are either unaware of their homebuying options or otherwise underserved by

[1] Pew Hispanic Center

mainstream financial institutions.[2] Many banks have developed "emerging market" programs and product lines, but more needs to be done to incorporate the needs of the Latino community into the core business plan of financial institutions. Despite substantial progress in recent years, most financial industries lack branches in low-income Latino neighborhoods, bilingual staff, and flexible products that meet the needs of the Hispanic community.

The NCLR Homeownership Network

The NCLR Homeownership Network (NHN) consists of 35 NCLR affiliates in 15 states which provide pre-purchase, bilingual homeownership counseling to low-income families in predominately Latino neighborhoods. Along with basic homeownership education classes, affiliates provide intense one-on-one counseling designed to move families from whatever their current economic status is to eventual homeownership. Depending on the needs of the family, counselors may spend six months to three years preparing a family for homeownership. NHN affiliates are independent community-based organizations (CBOs), incorporated into the network based on target plans submitted to NCLR for review. Incorporation into NHN automatically qualifies CBOs for HUD certification, grants from NCLR, technical assistance from NCLR staff, and access to products available via national lender partnerships. Created in 1997, NHN counsels over 20,000 families, and closes approximately 2,500 mortgages, annually. More than 13,500 families have achieved homeownership through NHN agencies since the network's inception.

The success of this network is based, in large part, on the NCLR model, which focuses on a single goal: increasing Latino homeownership. NHN groups provide bilingual homebuyer education that breaks down the homebuying process for first-time homebuyers. Approximately 80% of those attending the classes are not ready to purchase a home immediately, often due to either lack of savings or high housing costs. NHN counselors work with families to obtain and review credit reports, create family budgets, and prepare goal-oriented work plans, giving them the tools they need to achieve homeownership. Once mortgage-ready, counselors provide families with at least three comparable, competitive mortgage products and package the loan requirements so the only step left for the loan officer is verification. Since many Latino families make use of alternative forms of credit or specialized, affordable products, this prequalification and packaging process saves the financial institutions significant time in processing and origination. A range of other services augments the core model, such as financial education, credit counseling, default counseling, and rental and emergency housing assistance.

NHN agencies also create other avenues to affordable housing on behalf of their clients. Many groups serve as the counseling provider for local and state downpayment assistance programs and conduits to affordable housing developments. Further, sophisticated national lender relationships with Bank of America, Wells Fargo, US Bank, Freddie Mac, and Fannie Mae have led to the creation of a growing supply of affordable products available to creditworthy, but lower-income, borrowers who have completed homeownership education and counseling.

---

[2] NCLR calculations of a study by the Joint Center for Housing of Harvard University that determined that 26% of the homeownership gap was unable to be explained by differences in age, income, or family composition. See *State of America's Housing: 2003*. Cambridge, Massachusetts: Joint Center for Housing, 2003; Figure 7.

NHN has been on the forefront of innovations in the counseling industry, which have led to better service delivery to Latino families. NCLR and NHN played a critical role in the creation of a new counseling database technology called CounselorMax. CounselorMax is a cutting-edge development that revolutionized the old paper-filing system, allowed counselors to see more clients and use their time more efficiently, and helped lead the effort to increasing the professional standards within the counseling industry. In addition, NCLR has been an active player in the development of now ubiquitous affordable mortgage products and more flexible underwriting standards met by the industry. Because of these innovations, NCLR has been able to expand NHN, reaching more underserved areas and families. These partnerships built the capacity and impact of NHN, but also changed the way financial institutions viewed and engaged the services provided by the counseling industry. Seeing the potential of NHN, other lenders such as Countrywide and Washington Mutual are exploring potential partnerships with NCLR.

Housing Counseling Industry

Housing counseling is an industry growing in importance and sophistication. Market dynamics are shifting, more credit is available to credit-impaired and less sophisticated shoppers, and many Latino and underserved markets are gaining attention. In the midst of these changes, community-based housing counseling agencies are becoming more critical to the homebuying process. They are often the first point of contact for neighborhood and immigrant families looking for trustworthy information. It is imperative that all levels of government recognize the important role these organizations play and support their efforts. That said, there are several areas where NCLR believes the housing counseling industry is working well:

- **Integration:** Before the engagement of the homebuying industry, agency-industry relationships were mostly based on a referral system whereby an agency would provide outreach and education services and then send a family to the lender. Now community agencies are engaging the homebuying network from a much more global perspective by prequalifying families before sending them to the lender, and moving toward loan packaging through nonprofit brokerage programs. Industry leaders, too, are changing the way they approach counseling networks based on the value of the services they provide, i.e., mortgage-ready families.

- **Impact:** Community agencies increasingly have moved away from a "passive model" of service based on increasing awareness to an "impact model" that focuses on results – increasing homeownership. As a result, the counseling industry is forging new business strategies via sophisticated lender partnerships that have led to innovative new products for low-income families and ventures into loan origination and processing. Housing counseling reaches very low-income families and has been successful in moving these families into homeownership; these innovations have been critical in providing low-income families access to resources that lead to homeownership.

- **Technology:** Prior to the introduction of online database management tools, counselors had to manage their client load and reporting requirements with a paper filing system. Technology has increased the counselor's efficiency and consistency and has facilitated new relationships with the industry. Also, the introduction of new technology in community-based facilities has opened doors to bridging the digital divide that exists in low-income communities.

However, there are also some barriers that, left unaddressed, may prohibit the industry from expanding:

- **Fee Income:** In order for agencies to effectively expand their operations and reach more families, they must become more sustainable financially. HUD's HOME program counseling grants cannot, and should not, be the sole source of funding for the agencies. NCLR has worked with national lenders to create a fee-for-service revenue stream that would support counseling work on a per-loan basis. However, many lenders have resisted paying counseling groups a fee, fearing incorrectly that it will be perceived as a payment for referral, as prohibited in Section 8 of the Real Estate Settlement Procedures Act (RESPA), and expose them to legal action. However, RESPA does allow banks to pay a fee for a bona fide service. Housing counselors provide a valuable service (education and financial preparation) to the lending community, which results in a tangible product (bankable family) and value based on reduced risk and mitigation of risk.

- **Funding:** Further, HUD guidelines disallowing local nonprofits from combining Community Development Block Grant (CDBG) funding and housing counseling funding (from an intermediary or directly from HUD) to fund homeownership counseling activities unnecessarily restrict counseling agencies' access to certain funding sources; the activity is considered "double-dipping." Though both come from HUD, counseling funds are set aside within the HOME Program budget and are entirely separate from CDBG funds. National and regional intermediaries distribute their housing counseling dollars with different granting methods and deliverables than local governments. Local nonprofits must be able to make use of all available funding sources in order to fund their operations fully.

- **Capacity-building:** Housing counseling agencies suffer from high turnover, high training costs, and scarce resources for continuing education. They need increases resources, in the form of funding, materials, and training opportunities, that will support current activities and allow successful programs to expand.

- **HUD Capacity:** HUD currently offers a "thin" certification process while advertising "HUD-certified counseling agencies" as a public resource; however, there is little follow-up support. HUD needs resources to make counseling a priority program, which would include promoting best practices; increased public knowledge of counseling methods through research and evaluation; and targeted media and social marketing campaigns that would increase public awareness of the benefits of counseling.

Legislation

The housing counseling industry consists of many mature, experienced organizations that make up a core infrastructure that is an invaluable resource to low-income families, neighborhoods, and the homebuying industry. The past few years have produced technological and methodological advances that are allowing these organizations to serve their constituencies better and in more efficient ways.

Legislation addressing housing counseling should advance and support this growing field and provide avenues for expansion. The "Expanding Housing Opportunities Through Educationa dn Counseling Act," H.R. 3938, has some positive aspects worth noting, as well as some areas for concern. Among the positive aspects:

- **Office of Housing Counseling:** H.R. 3938 establishes an Office of Housing Counseling. The counseling industry will benefit from bringing all pieces of counseling into a central location and under the auspices of one director. Further, as this will be the only focus of the office, NCLR expects this will raise awareness of counseling organizations, as well as the priority of their work and needs. However, NCLR strongly suggests making use of existing expertise and not creating unnecessary overhead; in this connection, it may be possible to achieve the same result through alternative means.

- **Set Standards:** NCLR applauds the use of set standards as guidelines that will promote best practices within the counseling industry. Setting high standards on which an agency's certification is dependent, as opposed to uniform materials that would create a bureaucratic enforcement nightmare, allows agencies to customize their models to local housing markets while maintaining professional benchmarks.

- **Advisory Board:** The legislation creates an advisory board with rotating membership, which will inform the Secretary and director on matters of the counseling and homebuying industries. The expectation is that this advisory board will help integrate housing counseling further into the homebuying process. However, NCLR strongly recommends changing language to ensure that non-profit counseling providers have equal representation on the board.

- **Default and Foreclosure Study:** NCLR applauds the authors of this legislation for including a study examining foreclosure. To strengthen Section 6, NCLR recommends adding language that will study foreclosure by race and ethnicity, or at the very least by neighborhood, and will look at broad factors contributing to impacting foreclosure cases such as microeconomics, customer service, and loss mitigation strategies used.

The proposed legislation also has aspects about which we are concerned, and excludes important elements that would further advance the field of counseling:

- **Low Authorization:** The counseling industry is one that has shown rapid maturation, expansion, and professionalization. This success has been rewarded with modest increases in appropriations in the past few budgets. However, in order for the counseling industry to take its operation "to scale," further investments in training, technology, and capacity-building are necessary. This cannot be accomplished with a mere $5 million increase, and at a level sustained over the next three years. Further, additional costs created through this legislation, such as mortgage software, and the Administration's Zero Downpayment FHA product will place additional strains on already tight budgets and could even have the effect of a net cut in funding. To truly impact the field, generate expansion of services, and build capacity, the housing counseling authorization needs to be increased to at least $100 million over time.

- **Counseling Software:** While the general middle-class, first-time homebuyer may benefit from an online counseling product, the low-income clients seen by NCLR's counseling agencies will not. For this reason, it is worth stressing that the counseling software should not be seen as a replacement or substitute for one-on-one pre-purchase counseling, nor should resources dedicated to low-income families be siphoned away for this purpose.

- **Other Entities:** H.R. 3938 confirms HUD's ability to make grants to states, units of local governments, and nonprofit organizations, but also adds "other entities." It is unclear, and never defined, what is intended by "other entities." NCLR recommends removing this language.

- **FHA Pilot Program:** Any counseling legislation that moves forward must include an FHA counseling pilot program. As FHA foreclosures continue to rise, it behooves all interested parties to provide FHA borrowers with research-proven, pre-purchase homeownership counseling, and, in the case of default, loss mitigation counseling. This is an opportunity to support and maximize the experience and innovations of the counseling industry while at the same time creating a savings for FHA/VA by sending otherwise risky clients to homeownership counseling sessions that mitigate the risk of delinquency and foreclosure.

- **Clarify RESPA:** The demands on the local housing counseling agencies are growing. Agencies are being stretched beyond capacity to provide more services such as financial literacy, services to the unbanked, credit counseling, home maintenance, antipredatory lending initiatives, and default counseling. In order to preserve their ability to provide these services the agencies must have access to a consistent and reliable earned-fee income from diverse sources. HUD should immediately issue a mortgagee letter that clarifies Real Estate Settlements Procedure Act (RESPA) regulations allowing counseling agencies to charge a fee for bona fide services rendered. If HUD cannot do this on a timely basis, then Congress should consider a legislative remedy.

- **Change HUD regulations disallowing the combination of local CDBG funding and intermediary funding for counseling activities.** While well-intentioned to prevent HUD dollars in different forms from paying for the same service, the current "double-dipping" prohibition severely limits potential funding sources for local agencies. Cities and counties should be granted enough autonomy to fund the best agency for the services most needed within their communities. At the same time, safety and soundness regulations can be put into place to prevent agencies from double billing for the same work. (An example of such side-by-side funding is CDBG and Empowerment Zone funds used for the same local project.)

Conclusion

Now is an important time to support and expand the work of community-based housing counseling agencies. Market data show that a significant portion of first-time homebuyers in coming years will be minorities, low-income families, and immigrants. This is exactly the clientele that most utilizes, and most benefits from, the services of housing counselors. The housing counseling industry needs comprehensive legislation that brings innovation to the industry, clears the way for new growth, and builds capacity. While H.R. 3938 proposes some useful steps in this direction, NCLR believes that a bolder, more comprehensive approach is needed.

I would be happy to answer any questions.