

# **Role of Housing Counseling In Economic Recovery**

Submitted at:

**“HUD and NeighborWorks Housing Counseling Oversight”**

Submitted to

**Subcommittee on Insurance, Housing, and Community Development  
U.S. House of Representatives Committee on Financial Services**

Submitted by

**Coalition of HUD Housing Counseling Intermediaries**

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The Coalition of HUD Housing Counseling Intermediaries is a national network of HUD-approved nonprofit organizations that provide housing counseling, education and community reinvestment programs. Our agencies are a lifeline to millions of families struggling to save their home from foreclosure, as well as providing counseling to first-time homebuyers, renters, the homeless, and seniors.

The Coalition strongly supports the restoration of funding to the HUD Housing Counseling Assistance Program that has provided more than \$29 billion in economic benefits through sustainable homeownership and stabilizing communities. We urge Congress to restore funding to \$87.5 million in FY12 to prevent the elimination of critical housing services that are providing relief to families and our economy.

In this statement, we examine effective housing counseling responses to the housing crisis, including the HUD Housing Counseling Assistance Program and the National Foreclosure Mitigation Counseling program administered by NeighborWorks, and provide specific recommendations to leverage these programs to provide further relief from the economic crisis.

## **Background**

Decades of work by housing counseling organizations to build wealth in urban, suburban, and rural communities across the country is being undone. Experts estimate more than nine million foreclosures between 2009-2012. During that same period, neighborhoods will lose \$1.9 trillion due to decreased home values, with 92 million homeowners losing \$20,300 on average.<sup>1</sup> This is due in large part to predatory mortgages that were targeted at minority and underserved communities. Housing counseling can help homebuyers avoid predatory loans and help them recognize if they are not ready to buy, two of the most effective ways to avoid unnecessary foreclosures.

Today, with record-low interest rates and affordable home prices, borrowers face a different set of challenges to becoming a homeowner. First, lenders have implemented tighter credit standards, including no longer accept non-traditional credit reports that can demonstrate creditworthiness. Second, first-time homebuyers are finding it difficult to compete with cash-laden investors eager to scoop up bargain properties.

Housing counselors play an important role in helping homeowners navigate the complicated homebuying process by exploring all potential financing options, which puts homeowners in the best position to achieve a sustainable home loan. We know that homeowners who have participated in housing counseling are more likely to stay current on their mortgage which means increasing access to housing counselors is an effective way to help our nation get out of its current housing crisis and to prevent anything like this from ever happening again.

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<sup>1</sup> *Soaring Spillover: Accelerating Foreclosures to Cost Neighbors \$502 Billion in 2009 Alone; 69.5 Million Homes Lose \$7,200 on Average* (Durham, NC: Center for Responsible Lending, 2009).

**Responses to the Economic Crisis**  
*HUD Housing Counseling Assistance Program*

The Housing Counseling Assistance Program administered by the Department of Housing and Urban Development (HUD) was established in 1968 to address a broad range of housing counseling needs of working families and seniors of modest means. Over time the scope of the program has broadened to focus on providing education and advice to first-time homebuyers, renters, seniors, and homeowners facing foreclosure. Over the last decade, the Housing Counseling Assistance Program has adapted to a dynamic housing market by increasing its capacity and sophistication. Today, housing counselors have experience in mortgage origination, loss mitigation, reverse mortgages, homeless counseling, and tenant rights, and they provide objective information, advice, and guidance to individuals.

- **Leveraging Housing Counseling for Economic Recovery**

Congress must further leverage its investment in the HUD Housing Counseling Assistance Program, which has reached more than 11 million households since 2006. A number of studies prove that pre-and post-purchase housing counseling helps preserve and maintain homeownership as well as provide positive economic impact.<sup>2</sup> With a serious housing crisis at the center of the U.S. recession and threatening the economic recovery, a housing program that achieves a conservative estimate of 38,566% return on investment is critical to maintain. In fact, in 2010, housing counseling agencies achieved \$29 billion in measurable economic benefits on a \$75 million investment. Commonsense and sound financial policy would dictate increasing funding, not eliminating it completely.

**Economic Benefits of Housing Counseling Assistance Program in 2010**

<b>Housing counseling services provided in 2010</b>	<b>Economic Benefits</b>
41,266 clients successfully purchased a home	\$1.2 billion in economic benefits were generated
8,725 clients decided that they were not ready to purchase	\$500-\$900 million potentially prevented in losses from future foreclosures
469,484 delinquent clients successfully avoided foreclosure	\$28-\$47 billion in economic loss was prevented

In addition, prior to the housing crisis, 30-50% of sub-prime borrowers could have qualified for a prime loan if they had pre-purchase counseling to connect them with safer, more affordable mortgage products. Billions of dollars, and millions of homes and jobs could have been saved.

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<sup>2</sup> Four research studies separately conducted by the Joint Center for Housing Studies of Harvard University, The Urban Institute, Federal Reserve Board of Governors, and the National Council on Aging presented research validating the value of housing counseling at a briefing session held June 21st by the Coalition of HUD Housing Counseling Intermediaries. Available at: <http://www.995hope.org/news-center/research-opinion-pieces/mortgage-counseling-benefits-validated-by-four-independent-research-studies/> (accessed September 2011).

Here are some basic housing counseling facts:

- Housing counseling reduces mortgage delinquencies and foreclosure rates
- Pre-purchase counseling can reduce the likelihood of delinquency by up to 50%
- Borrowers in foreclosure counseling are 70% more likely to get up-to-date on payments
- Foreclosure counseling increases chances of acceptance for loan modification at better terms
- Modifications obtained through counseling are 45% more likely to be sustained

Funding provided by the HUD Housing Counseling Assistance Program has built the housing counseling industry into the valued industry it is today. Up until FY 2011, HUD housing counseling funding has provided counseling organizations with stable and targeted funding which has allowed agencies to build their counseling capacity, train their staffs into skilled professionals, and invest in the technologies, which make their work more efficient and more accessible by people who cannot travel to an office because of distance or physical disability. It is the only federal program that provides explicit support for households considering purchasing their first home, non-foreclosure post-purchase counseling, renter, and homeless prevention counseling, and reverse mortgage counseling for seniors. The loss of FY 2011 funding translates into people not counseled, foreclosures not mitigated, mortgage modification scams not prevented, and housing hardships not repaired.

Therefore, the Coalition urges Congress to restore funding to the HUD Housing Counseling Assistance Program, and to leverage this program to provide further provide relief to families, communities, and our economy.

- **Leveraging HUD Housing Counseling Intermediaries in America's Communities**

The HUD Housing Counseling Program funds more than two dozen national and regional housing counseling intermediaries. Intermediaries are designated and approved by HUD to distribute HUD housing counseling funds to their networks based on work plan goals and outcomes. These organizations compete for funding each year, and awards are based on the quality of counseling work, quantity of clients seen, past performance, demand for services, depth and breadth of the delivery network, training and experience of the staff, and other criteria.

Housing counseling intermediaries play a crucial role in the housing counseling field. Intermediaries work closely with HUD to expand the availability of counseling services to new communities and identify the needs of communities and the nonprofits that serve them. The intermediaries provide leadership, strengthening the counseling field and improving the quality and professionalism of counseling services.

**Quality control:** Intermediaries are responsible for ensuring that the organizations they fund comply with HUD standards, as laid out in the *HUD Housing Counseling Program Handbook*. In most cases, intermediaries enforce professional and ethical standards above those called for in the handbook. The National Industry Standards for Homeownership Education and Counseling is widely recognized by the financial services industry, government, and housing counseling

agencies as the industry standard for the counseling industry. These standards were developed by a national advisory group of stakeholders, including HUD have been endorsed or adopted by more than 900 national and local counseling agencies and funders across the country.<sup>3</sup> All HUD-approved agencies are audited biennially. Should a HUD-approved agency fail an audit, funding for the office could be terminated and HUD-approved agency status revoked.

**Training and capacity-building:** Intermediaries work closely with their networks to train staff on proper counseling materials, technology, reporting requirements, client privacy standards, and management techniques. This is an important part of ensuring that HUD standards are met. However, it is also critical to helping organizations remain stable over time.

**Partnerships:** Intermediaries have played a leading role in crafting partnerships that have become models for the counseling industry. For example, the Coalition has worked together to encourage lenders to fund agencies for well-counseled borrowers, who have been shown to default less than similarly situated peers though less informed peers. We came together again to share information and models for dealing with foreclosures, partnering with servicers, and combating the foreclosure crisis. As a result of our collaborative work, counseling agencies have greater access to funding, mortgage products, and streamlined approaches to foreclosure mitigation.

We urge Congress to work closely with the HUD Housing Counseling Intermediaries to improve and further the responses to this ongoing housing crisis.

#### *National Foreclosure Mitigation Counseling Program (NFMC)*

The NFMC program is a complementary program to the HUD Housing Counseling Assistance program. Established in 2007 in response to the foreclosure crisis, the NFMC program was designed to address the growing need for foreclosure prevention counseling for homeowners that HUD program could not meet alone. Since 2007 more than one million homeowners facing foreclosure have received assistance through the NFMC program. The effectiveness of this program is clear:

- 64% of counseled homeowners remain out of serious delinquency after 8 months
- Borrowers who received a loan modification through NFMC counseling saved an average of \$267 more each month than if they had not had counseling

The NFMC program continues to be a necessary and valued resource of funds for housing counseling agencies as the need for foreclosure mitigation counseling continues at record levels with 5.2 million homeowners 90+ days delinquent or in foreclosure.

HUD Housing Counseling Funding remains the core funding source for the counseling industry, supporting pre-purchase, nondelinquent homeowner, reverse mortgage, homeless, and renter counseling, while NFMC counseling supplements the foreclosure mitigation counseling.

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<sup>3</sup> To review standards, visit: <http://www.homeownershipstandards.org>.

## **Conclusion**

Precisely because housing counseling has been so effective, Congress's elimination of funding for the annual allocation for HUD's Housing Counseling Assistance Program represents a huge loss for homebuyers and for communities of color in particular. Homebuyers already struggling to beat out cash-laden speculators for properties in their own neighborhoods will find themselves even more imperiled absent a counseling infrastructure that can aid in the transaction. Moreover, at a time when most federal efforts to curb foreclosure rates have fallen far short of their goals, the HUD Housing Counseling Assistance Program has stood out as an efficient use of resources.

Experience shows that the loss of housing counseling services will leave a void that is likely to be filled by scam artists, most notably now with mortgage modification scams. Unscrupulous activity will continue to be particularly acute in communities of color, where predatory practices have been in play for decades. Rather than ax the program, Congress and HUD should look for ways to leverage the program to further the economic recovery programs created by Congress and the Administration. Federal funding has never been intended to be the sole source of support for the counseling program. However, without the infrastructure created by HUD, the counseling field will be unable to maintain its depth and capacity. Truly, the HUD Housing Counseling Assistance Program is an excellent example of an effective and highly functional public-private partnership. We urge Congress to fully fund the program at \$87.5 million in the 2012 budget.

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Clearpoint Financial Solutions, Inc.  
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HomeFree-USA  
Homeownership Preservation Foundation  
Housing Partnership Network  
Mission of Peace National Corporation  
National Coalition for Asian Pacific American Community Development  
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