

**ROLE OF HOUSING COUNSELING IN LATINO HOUSEHOLDS  
TO DRIVE ECONOMIC RECOVERY**

Presented at

HUD and NeighborWorks Housing Counseling Oversight

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Submitted by  
National Council of La Raza

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The National Council of La Raza (NCLR)—the largest national Hispanic<sup>1</sup> civil rights and advocacy organization in the United States—has been committed to improving opportunities for the nation’s 50.5 million Latinos for the last four decades. To this end, NCLR conducts research, policy analysis, and advocacy on a variety of financial services issues that affect the ability of Latinos to build and maintain assets and wealth.

For more than two decades, NCLR has engaged in public policy issues that focus on supporting strong fair housing and fair lending laws, increased access to financial services for low-income people, and promoting homeownership in the Latino community. And for more than ten years, the NCLR Homeownership Network (NHN)—a network of 50 community-based counseling providers—has been providing first-time homebuyers with the advice and guidance they need to navigate the mortgage process. NHN counselors have produced more than 25,000 first-time homebuyers over the last 13 years. NCLR’s subsidiary, the Raza Development Fund (RDF), is the nation’s largest Hispanic Community Development Financial Institution (CDFI). Since 1999, RDF has provided \$500 million in financing to community-based development projects throughout the country, building the capacity of local nonprofits and creating opportunities for Latino communities. Our research, programs, and market investments have increased NCLR’s institutional knowledge of how Latinos interact with the mortgage and financial markets and the impact on their communities.

NCLR 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. The current elimination of funding threatens to reduce our NHN network from 50 housing counseling agencies to only 20. We urge Congress to restore funding to the FY10 level of \$87.5 million to prevent the elimination of critical housing services that are providing relief to families and our economy.

In this statement, we examine effective community-based responses to the housing crisis, including the HUD Housing Counseling Assistance Program, NCLR’s Homeownership Network, 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**

For decades, many of us have worked together to build wealth in Latino and other underserved communities. Like all Americans, Latinos rely on homeownership to build wealth for their long-term financial well-being. Unfortunately, the mortgage market did not serve the Latino and immigrant communities well. Hispanic and immigrant borrowers often have unique profiles, including lack of traditional credit history, multiple co-borrowers, and cash income, which makes them unattractive to lenders who rely heavily on automated underwriting. Most lenders referred hard-to-serve borrowers to their subprime affiliates or simply did not market themselves in certain communities. This created a vacuum that subprime and predatory lenders quickly

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<sup>1</sup> The terms “Hispanic” and “Latino” are used interchangeably by the U.S. Census Bureau and throughout this document to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

filled. Latino and Black borrowers were more than twice as likely to receive these predatory mortgages, which were most at risk of default. Even after controlling for income, credit score, loan-to-value (LTV) ratio, and presence of a co-borrower, borrowers of color were disproportionately represented in the subprime market compared to their White peers.<sup>2</sup> In addition, research shows that Latinos were 30% more likely than Whites to receive a high-cost loan when purchasing their home and that Latinos and Black were more likely to receive loans with interest-only or negative amortization features, prepayment penalties, and high yield spread premiums.<sup>3</sup> Housing counselors play a key role in helping families steer away from predatory mortgages and finding a safe and affordable mortgage. However, their efforts to provide homebuyer counseling often went unheeded because many lenders eliminated the housing counseling requirement and many realtors discouraged clients from seeking counseling in order to get to the closing table quicker.

As a result of this reckless and deceptive lending, Latino and Black borrowers are losing their homes at a record pace. In fact, experts estimate that as of 2006, 17% of Latino homeowners and 11% of Black homeowners have or will lose their homes to foreclosure, compared to 7% of White homeowners.<sup>4</sup> In addition, from 2005 to 2009, the median level of home equity held by Hispanic homeowners declined by half from \$99,983 to \$49,145, compared to \$76,910 to \$59,000 for Black homeowners and \$115,364 to \$95,000 for White homeowners.<sup>5</sup> The loss of homes through foreclosure and the decline in home values have resulted in a 66% decline in wealth levels among Hispanic households and a 53% decline among Black households compared with just 16% among White households.

Today, with record-low interest rates and affordable home prices, Latino and other minority borrowers face a different set of challenges to becoming a homeowner. First, lenders have implemented tighter credit standards and no longer accept non-traditional credit reports that can demonstrate creditworthiness. Second, 60% of Hispanic and Black borrowers are relying on FHA mortgages rather than receiving conventional mortgages, which are often cheaper and quicker to close.<sup>6</sup> Finally, first-time homebuyers are finding it difficult to compete with cash-laden investors eager to scoop up bargain properties. These barriers are contributing to the widening gap in homeownership rates among Latinos (47%) and Blacks (46%), compared to Whites (74%).<sup>7</sup>

NCLR has engaged in a number of efforts to prevent foreclosures and to maintain a responsible path to sustainable homeownership among Hispanic and other underserved communities. In 2008, we launched the NCLR Homeownership Network Learning Alliance (NHNLA) to provide

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<sup>2</sup> Debbie Gruenstein Bocian, Keith S. Ernst, and Wei Li, *Unfair Lending: The Effect of Race and Ethnicity on Price of Subprime Mortgages* (Durham, NC: Center for Responsible Lending, 2006).

<sup>3</sup> Debbie Gruenstein Bocian, Keith S. Ernst, and Wei Li, *Unfair Lending: The Effect of Race and Ethnicity on Price of Subprime Mortgages* (Durham, NC: Center for Responsible Lending, 2006).

<sup>4</sup> Debbie Gruenstein Bocian, Wei Li, and Keith S. Ernst, *Foreclosures by Race and Ethnicity: The Demographics of a Crisis CRL Research Report* (Durham, NC: Center for Responsible Lending, 2010).

<sup>5</sup> Paul Taylor et al., *Twenty to One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics* (Washington, DC: Pew Research Center Social and Demographic Trends, 2011).

<sup>6</sup> Shaun Donovan for the U.S. Department of Housing and Urban Development, *FHA and the Future of the Housing Market*, 112th Cong., 1st sess., 2011.

<sup>7</sup> Paul Taylor et al., *Twenty to One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics* (Washington, DC: Pew Research Center Social and Demographic Trends, 2011).

HUD-approved training and certification programs for housing counselors across the country, including pre-purchase and foreclosure prevention counseling, as well as management training. That same year, NCLR launched the NCLR Home Rescue Campaign to help community-based organizations address the rising rate of foreclosures. The campaign features funding for foreclosure prevention counseling, a Home Rescue Fair pilot program, and a tool kit on foreclosure prevention for community-based organizations. NCLR also partnered with the National Urban League (NUL) and the National Coalition for Asian Pacific American Community Development (National CAPACD) to form the Alliance for Stabilizing Our Communities. The Alliance works to expand the capacity of minority- and immigrant-serving nonprofits to combat the effects of foreclosures. The Alliance has hosted 40 home rescue fairs across the country and connected thousands of homeowners to housing counselors, lenders, and attorneys to help save their homes from foreclosure.

### **Community-Based 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, 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>8</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.

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<sup>8</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).

### **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 preserved. 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

Therefore, NCLR 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 Minority and Underserved Communities**

The HUD Housing Counseling Program funds more than two dozen national and regional housing counseling intermediaries, of which NCLR is one. 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, and other criteria. NCLR has been a HUD intermediary for more than 11 years and is the only national network to focus principally on the Latino community.

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 in four specific areas, 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. NCLR is one of several national intermediaries that sits on the NeighborWorks Counseling and Homebuyer Education Committee (NCHCEC) and worked to develop industry standards for homeownership counselors and educational professionals. These standards have been endorsed or adopted by more than 900 national and local counseling agencies and funders across the country.<sup>9</sup> All HUD-approved agencies are audited biennially. Should a HUD intermediary's grantee fail an audit, funding for their entire network would be jeopardized.

**Training and capacity-building:** Intermediaries work closely with their networks to train new staff on proper counseling materials, technology, reporting requirements, 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. NCLR's work with counseling agencies helps to smooth transitions in times of leadership or staff turnover, plug gaps in funding, introduce new partnerships, and expand services to additional localities. As a result of our approach, NCLR has helped to open more than 16 housing counseling programs in as many states almost a third of our housing counseling network. This has been especially critical to communities in the Southeast and Midwest where the Hispanic population has been growing rapidly, but where few agencies have the capacity to provide bilingual services.

**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 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. We are particularly proud of the Alliance for Stabilizing Our Communities. As a result of our collaborative work, counseling agencies in our network have greater access to funding, exclusive mortgage products, and streamlined approaches to foreclosure mitigation.

**Technology and product development:** The national intermediaries have pioneered counseling technology that is now widely available to all counseling agencies. The two major technology platforms, Home Counselor Online and CounselorMax, have continued to evolve to allow counselors to better evaluate each borrower's or homeowner's financial circumstances. The counseling intermediaries have also worked closely with mortgage lenders to develop home loans that meet the needs of clients without sacrificing sound lending principles. Last year, NCLR introduced new origination technology to our network that will increase the efficiency of lending to our low- and moderate-income clients.

Furthermore, the HUD Housing Counseling Intermediaries have formed a coalition and have been working together since the onset of the housing crisis. The coalition partners seek to improve their effectiveness by working together to create a stable and lasting infrastructure to develop communication, provide access to state of the art resources, and develop real field collaboration that builds long-term success for the housing counseling

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<sup>9</sup> To review standards, visit <http://www.homeownershipstandards.com>.

industry and ultimately benefits underserved individuals and communities. NCLR urges Congress to work closely with the HUD Housing Counseling Intermediaries to improve and further the responses to this ongoing housing crisis.

### *NCLR Homeownership Network*

NCLR has been creating homeownership opportunities in low- and moderate-income Latino communities for more than 11 years. Housing counselors play a crucial role as independent third parties that offer unbiased information and advice to homebuyers, renters, victims of predatory lending, and families facing a financial emergency. NHN counselors emphasize one-on-one counseling in person whenever possible, which has been shown to be a more effective way to generate positive outcomes for Latino families.<sup>10</sup> This approach helps the family feel more comfortable, allows them to have private questions answered, and gives the counselor the opportunity to evaluate their situation and develop tailored solutions for the family's personal finances. We have used this proven methodology to help thousands of families secure their first homes.

As the foreclosure crisis hit, we began applying the same approach to homeowners at risk of foreclosure. Over the last 12 months we have counseled more than 25,000 homeowners facing foreclosure, the vast majority of whom are families that never received homeownership counseling before they purchased their homes. Our approach is not without its costs. On average, it takes NHN counselors 15 hours to help a family through the foreclosure prevention process. Counselors use this time to establish a family budget, evaluate the client's mortgage and financial circumstances, draft a hardship letter, and negotiate with the servicer on the family's behalf for an affordable mortgage. The hours spent per client can quickly exceed this average when mortgage servicers are unresponsive, causing counselors to have to resend workout packets<sup>11</sup> multiple times, or when mortgage servicers do not have bilingual staff and counselors are asked to interpret calls and translate documents. NHN counselors focus on in-depth counseling sessions which ensure that at-risk homeowners understand all of their options, find the best possible resolution, and get connected to other resources such as job training, mental health, and family counseling. For this reason, we do not focus on phone counseling or providing referrals. We keep our clients in-house and counsel them until a resolution is met.

The demand for housing counseling is on the rise. New initiatives launched by Congress, HUD, and the presidential administration have also sparked demand. We are concerned, however, that demand is outpacing capacity. More than one-third of our agencies report that they are routinely forced to turn families away because they do not have the capacity to serve them. Without a robust counseling system that can provide in-person, one-on-one counseling, we fear that

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<sup>10</sup> Ryan M. Johnson, Elsa Macias, *Home to Own: A New Model for Community-Based Low-Income Mortgage Lending*. (Arizona: Morrison Institute for Public Policy, 1995). See also: Brenda Muniz, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*. (Washington, DC: National Council of La Raza, 2004); Janis Bowdler, *Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives*. (Washington, DC: National Council of La Raza, 2008); and Eric Rodriguez, *Licensing and Registration in the Mortgage Industry*. (Washington, DC: National Council of La Raza, 2005).

<sup>11</sup> Workout packets usually include a borrower's expense budget, bank statements, proof of income, hardship letter, and request for loan modification, pre-foreclosure sale, or deed-in-lieu.

families will not be able to access foreclosure prevention solutions, will fall prey to foreclosure rescue scam artists, and new borrowers will not have the opportunity to become first-time homebuyers.

### *National Foreclosure Mitigation Counseling Program*

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 the 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 prevention counseling continues at record levels—with 5.2 million homeowners 90+ days delinquent or in foreclosure. The HUD Housing Counseling Assistance Program 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 prevention counseling.

### **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 without 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 community-based counseling services will leave a void that is likely to be filled by scam artists. 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. NCLR urges Congress to fully fund the program at \$87.5 million in the 2012 budget.