

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

HOUSING COUNSELING ASSISTANCE

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
<b>Strategic Goal H: Increase homeownership opportunities.</b>			
Discretionary BA (Dollars in Thousands)	\$16,000	\$26,250	\$33,750
FTE			
Headquarters	3	4	6
Field	54	56	57
Subtotal	57	60	63
S&E Cost (Dollars in Thousands)			
Personal Services	\$4,630	\$5,020	\$5,435
Travel	111	90	100
Transportation of Things	0	0	0
Rent, Communications & Utilities	0	0	0
Printing	2	3	5
Other Services	5	3	2
Supplies	1	1	2
Subtotal	4,749	5,117	5,544
<b>Strategic Objective H.1: Expand national homeownership opportunities.</b>			
Indicator: Housing Counseling is provided to 137,000 more homebuyers and homeowners in fiscal year 2004.	Estimate 250,000 households	150,000 additional households	137,000 additional households
<b>Strategic Objective H.2: Increase minority homeownership.</b>			
Indicator: The share of Housing Counseling clients who are minorities will increase by 113,000 to support the Department's goal of increasing the minority homeownership.	Estimate 210,000 minority clients	125,000 additional households	113,000 additional households
<b>Strategic Objective H.3: Make the home buying process less complicated and less expensive.</b>			
<b>Strategic Objective H.6: Keep existing homeowners from losing their homes.</b>			
Indicator: At least 62 percent of total mortgagors receiving default counseling will successfully avoid foreclosure.	62	62	62

EXPLANATION OF PERFORMANCE

Performance/Means and Strategies

Funding in the amount of \$33.75 million in program funding and \$5.5 million in Salaries and Expenses for a total of \$39.25 million in fiscal year 2004 directly support Strategic Goal H: Increase homeownership opportunities.

The Housing Counseling Assistance program, administered by the Office of Housing, supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. Counselors provide guidance and advice to help families and individuals improve their housing conditions and choices and meet the responsibilities of tenancy and homeownership. Agencies in the program may also provide Home Equity Conversion Mortgage (HECM) counseling to elderly homeowners who are looking to convert equity in their homes into income that can be used to pay for home improvements, medical costs, living expenses, or other expenses.

Housing counseling is a critically important tool that helps individuals make the transition from rental to homeownership, and enables them to stay in their homes once they are mortgagors. For example, housing counselors can help explain the significant tax advantages of homeownership, helping potential homebuyers more realistically evaluate their readiness for a home-purchase. Quality pre-purchase counseling can also help to lower the cost of homeownership by helping unwary borrowers avoid unreasonable closing costs and interest rates.

The great majority of appropriated funds are distributed through a yearly competition among applicants that meet eligibility requirements. In fiscal year 2002, nearly \$18.25 million (appropriation of \$20 million) was awarded to over 344 groups nationally, including 12 HUD-approved national and regional intermediaries. Intermediaries provide and manage sub-grants to networks of affiliated local community-based housing counseling agencies, to which they also provide training and technical assistance. The fiscal year 2002 appropriation for this account is included in the Department's HOME Investment Partnership Program. Funding for housing counseling assistance is requested in a stand-alone account for fiscal year 2003 and beyond.

Housing counseling also supports Strategic Objectives H.1 "Expand national homeownership opportunities" and Objective H.3 "Make the home buying process less complicated and less expensive." Pre-purchase counseling helps potential first-time homebuyers evaluate their readiness, understand their financing options and navigate what can be an extremely confusing and risky process. By providing potential homebuyers and users of FHA-insured financing with the information and direction they need to make smart choices when considering a home purchase. Housing counseling is an extremely effective tool for improving FHA risk management, as well as risk management for all mortgage activity (a President's Management Agenda initiative). Housing counseling assists unwary borrowers in avoiding unreasonably high interest rate, inflated appraisals, unaffordable repayment terms, and other predatory lending activities and conditions which can result in a loss of equity, increased debt, default, and even foreclosure.

An increase in housing counseling funds is especially important to help increase minority homeownership rates, Strategic Objective H.2 "Increase minority homeownership", which lag well behind the national average. Additional funding will expand services in places like the Colonias, and enable agencies across the country to hire and train bilingual counselors, and produce materials in multiple languages, in order to reach out to, and assist, recent immigrants, Hispanics and other minorities in buying a home. FHA intends to earmark as much as \$1.7 million of the fiscal years 2003 and 2004 appropriation for targeted outreach and education in communities with high incidence of default and predatory lending, often neighborhoods with large minority and immigrant concentrations. As a result, thousands will potentially avoid predatory lending terms and learn about the availability of housing counseling. Similarly, in fiscal year 2002, FHA set aside \$250,000 for housing counseling for residents of the Colonias. Because this is a new initiative, it is difficult to predict at this time the level of demand for the various housing counseling services available and the number of Colonias residents that will benefit. An equivalent set-aside is planned for the proposed fiscal years 2003 and 2004 appropriations.

An increase in housing counseling funds is also needed to complement, and help low- and moderate-income families utilize several of the Administration's new initiatives and proposals aimed at increasing homeownership opportunities. For example, HUD's new Section 8 Homeownership Program, which allows low-income individuals to use rental vouchers to purchase homes, requires participants to receive housing counseling. HUD's office of Public and Indian Housing predicts that caseload could approach 2,000 families in fiscal year 2004, and that housing counseling could cost approximately \$1,400 per family. FHA intends to target as much as \$2 million of the proposed fiscal year 2003 and \$2.5 million of fiscal year 2004 housing counseling budget to support this program.

## Housing Counseling Assistance

Similarly, the President is proposing to substantially increase funding to faith-and community-based, self-help housing programs like Habitat for Humanity. Other proposed programs, like the Down Payment Assistance Initiative, and a tax credit for developers of affordable single family housing, would also potentially expand homeownership opportunities for low-income and minority Americans, significantly increasing the demand for housing counseling. It is difficult to predict the impact of these new programs on the demand for housing counseling, but the Down-payment Assistance Program alone could assist as many as 40,000 a year, and presumably a large percentage of these individuals will seek housing counseling.

Fiscal year 2004 funding will provide for an additional 81,500 additional individuals (341,870 total) who will receive pre-purchase counseling. The housing counseling grant cycle is such that, for fiscal year 2004 funding, grants will be implemented in fiscal year 2005 than in fiscal year 2004.

Quality post-purchase counseling, which includes default counseling and loss mitigation, is an extremely effective tool for improving FHA risk management. An additional 48,000 mortgagors and homeowners (210,000 total) will receive post-purchase counseling, including default counseling, in helping significantly more mortgagors retain their homes and avoid returning to the rental market (Strategic Objective H.6 "Keeping existing homeowners from losing their homes"). Of the 62,238 mortgagors counseled with HUD housing counseling grant funds in fiscal year 2001, the most recent year for which data exists, approximately 19,294 or 30 percent were able to prevent foreclosure and maintain their home. This is consistent with a recently released study by Freddie Mac which concludes that housing counseling can reduce delinquency by as much as 26 percent. By limiting delinquency and foreclosure, housing counseling is a cost-effective way to reduce the FHA's exposure to risk while contributing to the growth and stability of communities across the country. The resulting per unit cost, including both pre and post-purchase counseling, on a full-cost accounting basis, is \$71.22 per client served.

### Resource Management Information

FTE increases slightly from fiscal year 2003 to fiscal year 2004 to support expected programmatic growth due to the Department's commitment to increase homeownership opportunities.