

HOUSING  
HOUSING COUNSELING ASSISTANCE  
2007 Summary Statement and Initiatives  
(Dollars in Thousands)

HOUSING COUNSELING ASSISTANCE	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2005 Appropriation .....	...	...	...	...	...	...
2006 Appropriation/Request .....	...	...	...	...	...	...
2007 Request .....	<u>\$44,550</u>	<u>...</u>	<u>...</u>	<u>\$44,550</u>	<u>\$44,550</u>	<u>\$5,000</u>
Program Improvements/Offsets .....	+44,550	...	...	+44,550	+44,550	+5,000

In previous fiscal years, the Housing Counseling Assistance program has been funded as a set-aside in the HOME program and obligations and outlays from these years are reflected in the HOME Investment Partnerships account.

**Summary Statement**

The Department requests \$44.6 million of fiscal year 2007 funding for the Housing Counseling Assistance program in an appropriations account separate from the HOME Investment Partnerships account, where it currently resides. The fiscal year 2007 housing counseling awards will be completed in late fiscal year 2007, with its funding to serve approximately 600,000 low- to moderate-income individuals and families during fiscal year 2008. The requested funding is a \$3 million increase from the fiscal year 2006 enacted level. This increased funding request reflects the contributions of the Housing Counseling Assistance program and its continuing efforts to improve performance data collection. The program's most recent efforts will result in data collection tools that will allow the program to better report on client outcomes and program effectiveness.

The Housing Counseling Assistance program is the only dedicated source of Federal funding for housing counseling services. The program is instrumental to the achievement of HUD's mission. The program's far-reaching effect supports numerous Departmental programs and Presidential priorities. Of particular importance, the Housing Counseling Assistance program supports the Presidential priorities of increasing both overall homeownership and minority homeownership rates, as well as supporting efforts to end chronic homelessness and innovative and aggressive efforts to combat predatory lending. Additionally, the Housing Counseling Assistance program supports the President's Management Agenda by mitigating the risk to single family housing mortgage insurance programs.

**Program Description and Activities**

The Housing Counseling Assistance Program, administered by the Office of Housing, supports the delivery of a wide variety of housing counseling services to potential 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. Section 106(a)(2) of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701(x)) provides HUD with the legislative authority to provide housing counseling services directly or through private or public organizations with special competence and knowledge in counseling low- and-moderate-income families.

More than ever before, potential homebuyers need help from knowledgeable housing counselors in order to make smart choices regarding homeownership. A myriad of financing options exist, including potentially riskier products like 'interest only' mortgages, short-term adjustable rate mortgages (ARMS), and low to no downpayment mortgages. Moreover, low- to moderate-income Americans are increasingly turning to the subprime mortgage market to finance home purchases. However, the high interest rates and often predatory

## Housing Counseling Assistance

hidden costs and penalties associated with subprime loans, such as prepayment penalties and balloon payments, dramatically increase the likelihood of default. Many homebuyers are simply unaware of less expensive and safer options, such as FHA, for which they could qualify. Housing counseling is the most cost effective way to educate individuals, and arm them with the knowledge they need to avoid unnecessarily high interest rates and predatory practices that can result in foreclosure.

The great majority of the fiscal year 2007 appropriated funds are expected to be distributed to National and Regional Intermediaries, Local Housing Counseling Agencies, and State Housing Finance Agencies to support the direct provision of housing counseling and education services. These funds are distributed through an annual competition to applicants that meet eligibility requirements based on capacity, need, soundness of approach, leveraging resources, and program evaluation. In fiscal year 2005, approximately \$41.7 million was awarded to over 380 groups nationally, including 18 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.

Housing counseling and education are central to the President's *Blueprint for the American Dream Partnership*, which specifically recommends educating more people regarding the home buying process. These activities assist the Department in achieving its strategic goals by increasing homeownership opportunities, promoting decent affordable housing, strengthening communities, and ensuring equal opportunity in housing. In fiscal year 2004, the most recent year for which performance data exists, pre-purchase homebuyer counseling comprised approximately 30 percent of HUD funded housing counseling activities, with an additional 28 percent funding homebuyer/homeowner educational group seminars.

Housing counseling activities are central to HUD's efforts to increase minority homeownership rates, which lag well behind the national average. Housing counseling will help in the achievement of the President's goal of adding 5.5 million new minority homeowners by the end of the decade. Program performance data indicates that approximately half of all clients served with HUD Housing Counseling grants are minorities. Furthermore, this appropriation will continue to fund counseling in the Colonias, making homeownership a possibility for recent immigrants, Hispanics, and other minorities.

The success of FHA depends on strong support for the Housing Counseling Assistance Program. Home Equity Conversion Mortgage (HECM) loans, a growing product line for FHA, require housing counseling. Agencies in the Housing Counseling Assistance 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. Furthermore, housing counseling will help borrowers benefit from FHA's new products, which will be priced based on traditional risk factors such as FICOs and LTV, and avoid more expensive and riskier financing options. Housing counseling will also support the President's Management Agenda by mitigating the risk to single family housing mortgage insurance programs.

A large percentage of individuals and families that will be assisted through the recently enacted American Dream Downpayment Initiative (ADDI) will receive housing counseling services funded through this appropriation. While counseling is not required for recipients of this downpayment assistance, HUD's Office of Community Planning and Development indicate that as many as 90 percent of recipients of downpayment help through the HOME program have complemented this assistance with housing counseling.

The Department will continue to fund housing counseling activities in conjunction with HUD's Section 8 Homeownership Voucher program. Through this support, the Housing Counseling Assistance program assists recipients of rental subsidies transition to homeownership and increases the participation of Public Housing Authorities in this program, thus making homeownership a viable option for a larger number of voucher recipients. A portion of counseling funds is also devoted to assisting the homeless with referrals and information regarding emergency services and transitional housing, helping contribute to the Administration's efforts to end chronic homelessness.

## Housing Counseling Assistance

This budget request supports innovative and aggressive efforts to educate individuals in identifying and avoiding predatory lending. Housing counseling helps ensure that individuals making the transition to homeownership are not taken advantage of by unscrupulous lenders and other housing industry individuals.

Additionally, default and foreclosure rates are rising sharply in conjunction with the rapid growth of subprime loans, particularly in low-income and minority neighborhoods. The explosion in recent years in the use of 'interest only' mortgages, short-term adjustable rate mortgages (ARMS), and low-to-no downpayment mortgages has helped millions of Americans become homeowners. However, these products have also encouraged many homebuyers to purchase more than they can afford, and to ignore potential long-term costs, putting many Americans on a collision course with financial disaster. In 2007, a large percentage of these loans will convert to significantly higher rates, and balloon payments will come due. With interest rates rising and the appreciation of property values slowing or decreasing, it is becoming increasingly difficult for these individuals, often with minimal or even negative equity, to sell their property for a profit, or even refinance to more affordable payments. As a result, a record number of individuals could face default and foreclosure in 2007. Without quality default counseling and loss mitigation, the dream of homeownership could turn into a financial nightmare for millions of these families and communities across the country. Approximately 68,000 mortgagors, many with FHA-insured loans, will receive foreclosure prevention counseling. The potential savings for FHA as a result of this counseling is sizable, as FHA estimates that the average claim costs approximately \$90,000.

Agencies in the Housing Counseling Assistance 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. Finally, a portion of counseling funds is also devoted to assisting the homeless with referrals and information regarding emergency services and transitional housing, helping contribute to the Administration's efforts to end chronic homelessness.

This Budget request continues to support training for housing counselors working for HUD-approved Housing Counseling Agencies in order to standardize and continue improving the quality of housing counseling provided.

Finally, due to the growing recognition that housing counseling is an effective tool for increasing homeownership and mitigating default and foreclosures, there is significantly more demand for housing counseling than can be accommodated by the amount of housing counseling funds currently available. Supporting this assertion is both anecdotal evidence from housing counseling agencies and the fact that, for fiscal year 2005 funding, HUD received requests for approximately \$30 million more funding than was available. In total, 425 agencies submitted proposals requesting \$72 million--a significant demand, given that applicants knew that there was a limited amount of funds available. Ultimately, 380 grants were awarded, totaling approximately \$41.7 million. The Department is working with a variety of partners including state and local governments, as well as private and non-profit organizations, to advance the goal of increasing homeownership opportunities. Housing Counseling is an important means and strategy in advancing this goal and it is anticipated that program demand will continue to grow.

The Department is increasing funding to faith- and community-based, self-help housing programs like Habitat for Humanity. Other new programs, such as the recently enacted ADDI, will also 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 expanded Downpayment Assistance Program alone could assist as many as 5,000 a year (increasing as the fiscal year 2007 ADDI funds are expended), and presumably a large percentage of these individuals will seek housing counseling.

Housing Counseling Assistance

HOUSING  
HOUSING COUNSELING ASSISTANCE  
Summary of Resources by Program  
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2005 Budget Authority</u>	<u>2004 Carryover Into 2005</u>	<u>2005 Total Resources</u>	<u>2005 Obligations</u>	<u>2006 Budget Authority/ Request</u>	<u>2005 Carryover Into 2006</u>	<u>2006 Total Resources</u>	<u>2007 Request</u>
New Appropriation .....	...	...	...	...	...	...	...	\$44,550
Total .....	...	...	...	...	...	...	...	44,550

<u>FTE</u>	<u>2005 Actual</u>	<u>2006 Estimate</u>	<u>2007 Estimate</u>
Headquarters .....	3	5	6
Field .....	<u>87</u>	<u>87</u>	<u>92</u>
Total .....	90	92	98

Housing Counseling Assistance

HOUSING  
HOUSING COUNSELING ASSISTANCE  
Program Offsets  
(Dollars in Thousands)

<b>New Appropriation</b>	<b><u>Amount</u></b>
2005 Appropriation .....	...
2006 Appropriation/Request .....	...
2007 Request .....	<u>\$44,550</u>
Program Improvements/Offsets .....	+44,550

**Proposed Actions**

There are no new initiatives.

**HOUSING  
HOUSING COUNSELING ASSISTANCE  
Performance Measurement Table**

Program Name: HOUSING COUNSELING ASSISTANCE					
Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2005 Plan	2005 Actual	2006 Plan	2007 Plan
At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.	Housing Counseling Agency FY Activity Reports (HUD 9902)	At least 70 percent.	Data to be available 2Q FY 2006.	At least 70 percent.	At least 70 percent.
At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.	Housing Counseling Agency FY Activity Reports (HUD 9902)	At least 30 percent.	Data to be available 2Q FY 2006.	At least 30 percent.	At least 30 percent.
Minority clients are at least 50 percent of total clients receiving housing counseling in fiscal year 2007.	Housing Counseling Agency FY Activity Reports (HUD 9902)	At least 50 percent.	Data to be available 2Q FY 2006.	At least 50 percent.	At least 50 percent.
More than 50 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency will successfully avoid foreclosure.	Housing Counseling Agency FY Activity Reports (HUD 9902)	More than 50 percent.	Data to be available 2Q FY 2006.	More than 50 percent.	More than 50 percent.

**Explanation Of Indicators**

HUD revised the Program's performance measures during the mid-year revision period for the fiscal year 2005 Annual Performance Plan to better reflect the Department's Strategic Plan. Various Program initiatives will improve the capacity of HUD-approved Housing Counseling agencies to serve clients, and help them achieve results. For example, the Housing Counseling funding in fiscal year 2007 for training for counselors from HUD-approved agencies will help counselors deliver higher quality services. Similarly, a requirement in a proposed rule that all agencies utilize a Client Management System, an on-line tool for counselors, will automate much of the housing counseling process, including client intake, file maintenance, financial and credit analysis, outreach and client notification, and reporting, not only improving counseling quality, but allowing counselors to serve more clients.

**At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.** The Department is placing more emphasis on Housing Counseling, including counseling for homeless clients and families seeking affordable rental housing. In fiscal year 2004, the most recent year for which performance data exists, rental counseling comprised approximately 18 percent of HUD funded housing counseling activities. An additional 5 percent funded homeless counseling.

Housing Counseling Assistance

**At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.** The Department is placing more emphasis on housing counseling, including it as a requirement for several programs such as the Housing Choice Voucher (formerly Section 8) homeownership program. In fiscal year 2004, the most recent year for which performance data exists, pre-purchase homebuyer counseling comprised approximately 30 percent of HUD funded housing counseling activities. An additional 28 percent funded homebuyer/homeowner educational group seminars. Clients tracked through this indicator include those individuals receiving housing counseling for pre-purchase reasons, including clients who are preparing to purchase a home or are working to become mortgage ready.

**Minority clients are at least 50 percent of total clients receiving housing counseling in fiscal year 2007.** Housing counseling is an integral part of helping increase the minority homeownership rate. Clients tracked through this indicator include those receiving various forms of housing counseling from homebuyer education, pre-purchase, and loss mitigation/default counseling to rental, fair housing, and homeless counseling. The fiscal year 2007 performance goal is to ensure that minority clients receive housing counseling to support the Department's goal of increasing the minority homeownership rate. The decision to revise this performance indicator to report housing counseling to minority clients on the basis of a percentage share of all clients counseled instead of a whole number target was made to lessen the dependence on the indicator on fluctuations in budget. HUD can work to increase the percentage of minorities whether the appropriations decreases, remains unchanged, or increases.

**More than 50 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency will successfully avoid foreclosure.** Clients tracked through this indicator include homeowners with mortgages who are at risk of default, or have already defaulted, and are seeking assistance in order to remain in their home and meet the responsibilities of homeownership. By limiting delinquency and foreclosure, default counseling is a cost-effective way to reduce FHA's exposure to risk while contributing to the growth and stability of families and communities across the country. Moreover, default counseling is increasingly important during periods of economic downturn, when job losses and low wages make it more difficult for families to meet their financial obligations, and default rates rise. This indicator measures the share of total mortgagors who, after receiving default counseling have successfully avoided foreclosure.

Housing Counseling Assistance

**HOUSING COUNSELING ASSISTANCE**  
**Justification of Proposed Changes in Appropriations Language**

For contracts, grants and other assistance other than loans, as authorized under section 106 of the Housing and Urban Development Act of 1968, as amended, \$44,550,000 to remain available until September 30, 2008: Provided, That funds shall be used for: providing counseling and advice to tenants and homeowners both current and prospective with respect to property maintenance, financial management, and such other matters as may be appropriate to assist them in improving their housing conditions and meeting the responsibilities of tenancy or homeownership; training and support of voluntary agencies and services.

**Explanation Of Changes**

The 2007 President's Budget proposes a separate appropriations paragraph for Housing Counseling Assistance. In recent years, this activity has been funded through an earmark in the HOME appropriation.



Housing Counseling Assistance

HOUSING  
HOUSING COUNSELING ASSISTANCE  
Crosswalk of 2005 Availability  
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2005 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2005 Resources</u>
New Appropriation .....	...	...	...	...	...	...
Total .....	...	...	...	...	...	...

NOTE: In fiscal year 2005, the Housing Counseling Assistance program was funded as a set-aside in the HOME program and obligations and outlays from previous years are reflected in the HOME account.

Housing Counseling Assistance

HOUSING  
HOUSING COUNSELING ASSISTANCE  
Crosswalk of 2006 Availability  
(Dollars in Thousands)

<u>Budget Activity</u>	2006 President's Budget Request	Congressional Appropriations Action on 2006 Request	2006 Supplemental/ Rescission	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2006 Resources</u>
New Appropriation .....	...	...	...	...	...	...
Total .....	...	...	...	...	...	...