

**HOUSING  
HOUSING COUNSELING ASSISTANCE  
2014 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>
2012 Appropriation .....	\$45,000	...	...	\$45,000	\$44,814	\$50,892
2013 Annualized CR .....	45,275	...	...	45,275	45,275	47,000
2014 Request .....	<u>55,000<sup>a</sup></u>	<u>...</u>	<u>...</u>	<u>55,000</u>	<u>55,000</u>	<u>49,000</u>
Program Improvements/Offsets .....	+9,725	...	...	+9,725	+9,725	+2,000

a/ This number includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent of Budget Authority.

**1. What is this request?**

For fiscal year 2014, the Department requests \$55 million for the Housing Counseling Assistance program, a \$10 million increase from the fiscal year 2012 enacted level of \$45 million. Funding at the increased level will permit the Office of Housing Counseling to meet 2.1 million consumers' needs to restore and enhance their income and borrowing ability, and improve their housing quality and affordability. The fiscal year 2014 Budget request will accomplish this goal by: 1) expanding the HUD-approved network of counselors to underserved populations and geographies (for example to veterans, seniors, and those living in rural areas); 2) providing counselors and counseling agencies with training and technical assistance to meet changing consumer needs in a more efficient manner; and 3) supporting HUD's initiatives to streamline the program. The 22 percent increase in funding will:

- Allow HUD-approved housing counselors to respond to the continued impact of unemployment, foreclosure, credit shocks, and changing housing needs;
- Help Americans transition from ownership to rental or back into the home purchase market;
- Provide a gateway to legitimate housing assistance and a barrier to scams and fraud;
- Meet congressional mandates to certify counselors, content and systems; and
- Expand aspects of the program consistent with recent research findings documenting the long-term effectiveness of HUD's housing counseling program.

## Housing Counseling Assistance

Research shows Housing Counseling works. In HUD's "Foreclosure Counseling Outcome Study," nearly 70 percent of clients who sought counseling before becoming delinquent were in their home and current on their mortgage payments at the 18-month follow-up period, whereas only 30 percent of clients who were 6 or more months behind at the time they entered counseling were in their home and current at follow-up.

The majority of the funding requested in this account, an estimated \$44.5 million, will be distributed competitively to support the direct provision of a holistic range of housing counseling services that are appropriate to local market conditions and individual consumer needs. An additional \$6 million will be used to strengthen the quality of housing counseling through training for organizations and counselors that increases subject matter expertise and assists counselors and organizations to meet new requirements pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203). The remaining \$4.5 million of the requested funds will be used for administrative contract services to further streamline internal processes, enhance counseling agency oversight, measure the impact of counseling services, increase consumer awareness of the program including anti-fraud initiatives, and fulfill remaining mandates of the Dodd-Frank Act.

- In 2014, we estimate that 2,231 HUD-approved housing counseling agencies employing an estimated 6,700 newly certified housing counselors, will assist a total of 2.1 million renters and owners (a 27 percent increase from 2012) to obtain, maintain or preserve their homes by making informed choices about their financial and housing options. HUD is streamlining grant application, reporting and other programmatic requirements and processes in an effort to minimize the administrative and financial burden on housing counseling agencies, improving their ability to utilize scarce resources to directly benefit consumers.
- We estimate that HUD Housing Counseling grants will leverage at least \$320 million in other public and private funding, resulting in HUD-approved housing counseling agencies helping more than 2.1 million households to improve their financial and housing conditions by making informed choices in the areas of purchasing or refinancing a home; rental housing options; reverse mortgages for seniors; foreclosure prevention; loss mitigation; avoiding eviction and homelessness; and moving from homelessness to a more stable housing situation.
- In 2014, we will expand the capacity of housing counselors by funding training and technical assistance through multiple modalities and in multiple languages to help consumers recover from the recession by increasing savings, improving financial capability, assisting families to understand the responsibilities of tenancy and ownership, addressing barriers to owning or renting a quality affordable home, recognizing discrimination and fraud, and accessing public and private programs to assist families to achieve their financial and housing goals.
- Fiscal year 2014 will be the second year that HUD will utilize a significantly revised Notice of Funding Availability (NOFA) for the Housing Counseling Grant Program. In fiscal year 2013, the Housing Counseling NOFA was revised to more effectively reward high capacity agencies that provide high quality services and to maximize the impact of housing counseling resources for consumers.

## Housing Counseling Assistance

### Salaries and Expenses (S&E) and Full-time Equivalents (FTE) Request

Fiscal year 2014 will mark the second year of operation of the Office of Housing Counseling. The mission of the Office of Housing Counseling is to assist individuals and families to obtain, sustain and improve their housing. We achieve this mission by supporting a strong national network of HUD-approved housing counseling agencies and housing counselors.

A total of 67 FTE are requested for the Housing Counseling Programs in fiscal year 2014, which includes an allocation of Office of Housing administrative support FTE. This is a decrease of 15 from the fiscal year 2012 level. Total S&E funding is \$8.53 million or a decrease of \$1.42 million from the 2012 level. Personnel services are proposed to decrease by \$1.53 million or 15.5 percent. Non-personnel services are increased by \$113 thousand reflecting an increased allocation for training and full implementation of the Housing Counseling Financial Advisory Committee.

### Workload by Function

The overall S&E request reflects the following workload by functions for the Housing Counseling Programs:

- Housing Counseling Program Oversight and Accountability has 25 FTE (37.3 percent) to ensure the successful operation of the program activities associated with monitoring, reporting, and certification of new and existing housing counselors, counseling agencies and related activities.
- Housing Counseling Policy and Grants Administration has 17 FTE (25.4 percent) to develop metrics, standards and policies for housing counseling for the homeless, renters, homebuyers and homeowners. This function also includes collection and analysis of data, and research documenting the effectiveness of HUD's housing counseling program. FTE for the Housing Counseling Deputy Assistant Secretary are tallied under this function.
- Housing Counseling Outreach, Capacity Building and Training has 25 FTE (37.3 percent) associated with activities related to training and education of counselors, agencies, applicants, and constituents; event coordination and campaigns; ongoing consumer service and communication; visibility of program; and provision of technical support.

The value of HUD staff to the success of the program may be measured in a number of ways. In 2012, HUD staff issued more than \$42 million in funding awards within 120 days of appropriation to 468 housing counseling organizations in all 50 states and Puerto Rico. Included in that amount was \$2 million in training grants, which will result in a projected 4,049 counselors trained across the country. In addition, HUD staff conducted 196 trainings directly to HUD-approved counseling agencies and sent information, including 140 program updates to the counseling network. HUD staff audited 522 organizations and recovered \$178 thousand in federal funding that was improperly used or documented.

Office of Housing is currently exploring ways that business process and systems improvements may allow the Department to absorb FTE reductions without adversely impacting program outcomes. The Office of Housing Counseling will be completing its first year of operation in 2013. All activities will be measured against TEAM and REAP study indicators to identify where actual performance

## Housing Counseling Assistance

differs from planned. Business systems improvements in grantmaking, reporting, oversight and procurement will be reviewed to see whether further efficiencies can be achieved.

### **2. What is this program?**

Through HUD's housing counseling program, disadvantaged families improve their financial situation, address their current housing needs, and pursue their housing and financial goals over time. Housing counseling ranges from addressing the crises of homelessness or foreclosure, to planning for the first-time home purchase or setting up a matched savings account. Housing counseling serves an important role in the success of other HUD initiatives as well as state, local and federal priorities. Housing counselors are a gateway to legitimate state, local, federal and private housing assistance programs, and counselors provide an important safeguard against scams and fraud. By teaching consumers basic principles of housing and money management, housing counselors help them to increase their residual income and savings, improve their housing conditions, and give them greater stability and confidence. This is especially true for those affected by unemployment, inappropriate mortgage choices, and high debt during the recession. Housing counselors increase awareness of both rights and responsibilities of homeownership and rental tenancy, addressing fundamental concepts such as anti-discrimination laws, the types of ownership and tenancy, budgeting, affordability calculations, maintenance and upkeep responsibilities, eviction and homelessness prevention, and where to get help when future housing challenges arise. Housing counselors provide support to households facing unemployment, finding and maintaining housing after returning from military deployment, or moving their families because their current housing situation is unsustainable.

HUD-approved housing counseling agencies also play a critical role when a natural disaster strikes a community. For example, HUD-approved housing counseling agencies have played a major role in assisting survivors of Hurricane Sandy, even as they themselves were directly affected by the storm. They have helped homeowners find replacement housing, submit Federal Emergency Management Agency (FEMA) claims; access emergency loans for boilers and hot water heaters; navigate insurance issues; obtain mortgage relief; avoid scams and find reputable contractors; and provided and even distributed cleaning supplies and tool boxes immediately following the storm. Housing counseling agencies were quick to identify people and places that were having trouble getting assistance and to fill gaps in the disaster recovery services.

Since 2009, HUD-approved counseling agencies have helped 9,649,365 million Americans to address housing challenges as follows:

- Counseling for foreclosure prevention--4,356,418 (45.15%)
- Group Education on variety of housing issue--2,535,404 (26.28%)
- Counseling for assistance with rental housing--947,002 (9.81%)
- Counseling for home purchase--868,547 (9.00%)
- Counseling for other homeownership issues--449,382 (4.66%)

## Housing Counseling Assistance

- Counseling to seniors to obtain a reverse mortgage--344,195 (3.57%)
- Counseling to homeless and at-risk of homelessness--148,417 (1.54%)

### Who benefits from HUD Housing Counseling Assistance?

HUD's housing counseling program reaches underserved Americans. In 2012, 44 percent of counseled clients were racial minorities; 19 percent were Hispanic; and 85 percent had low- or moderate-incomes. HUD records show that housing counseling is provided in 22 different languages, in all 50 states and every American territory, through in-person, telephone and internet modalities.

According to recent research, HUD's housing counseling program successfully targets needy families. Consumers benefiting from HUD-approved pre-purchase and foreclosure prevention services who participated in two outcome research studies on pre-purchase and foreclosure prevention counseling – conducted by HUD's Office of Policy Development and Research (PD&R) and published in March 2012 – had the following characteristics:

- Pre-purchase Study participants were racially and ethnically diverse (52 percent African American, 32 percent White, 16 percent of another race or multi-racial, and 19 percent Hispanic), were more likely to be young (51 percent were under age 35), female (72 percent), and have dependents under the age of 18 living with them (57 percent).
- The majority of Foreclosure Prevention study participants (59 percent) were women, compared with 43 percent of U.S. homeowners overall. Study participants were more likely to be non-White or Hispanic than U.S. homeowners overall, which is consistent with the disproportionate rate of foreclosures among racial and ethnic minorities in recent years. In particular, 30 percent of study counselees were African-American, while only 8 percent of U.S. homeowners are African American.
- Study participants had lower incomes than most homeowners. The median income of foreclosure counselees at the time of seeking counseling was approximately \$36,000, which is only 56 percent of the median household income for all U.S. homeowners at the time. About 70 percent of counselees had at least some household income from current employment.

### *How does HUD support Housing Counseling Activities Nationwide?*

HUD resources are directed in two ways. HUD certifies counseling agencies, makes training available to them and reviews them for compliance with HUD guidelines, standards and rules. Beginning in 2014, HUD will also approve individual counselors, mortgage systems, and counseling systems. In addition to the creation and maintenance of a reliable network of service providers, HUD also provides funding in the form of grants to support the work of some of those counseling agencies. The funding allows for the flexible service delivery and rapid response to consumer needs described above. As a part of the fiscal year 2014 Budget, HUD will seek authority to make multi-year grant awards, subject to annual appropriations. This will make it possible for grantees to conduct

## Housing Counseling Assistance

longer-term strategic planning and leverage additional resources more effectively, and also dramatically improve HUD's and the grantees' efficiency in administering the Program.

HUD works closely with its network of approximately 2,500 HUD-approved housing counseling agencies, intermediaries and stakeholders to monitor the changing nature of housing finance, housing affordability, foreclosures, increased homelessness and unemployment in order to assess how housing counselors can best equip Americans to adjust to changes in housing stock, housing tenure, housing finance, and household income. For example, within a week of the announcement of the National Mortgage Servicing Settlement in March 2012, HUD staff had informed all of its approved agencies about the terms of the contract and supported them in providing training on the terms of the settlement to their partners and stakeholders including legal services organizations and State and local government agencies. Moreover, within days of announcement, several scam "AG Settlement" providers offered to connect consumers to assistance available for free under the settlement. HUD housing counseling for foreclosure prevention is free, and our partners note this distinction when publicizing the benefits of HUD-approved counseling.

One of the benefits of the program design is that with HUD support, counseling agencies can adjust their services across counseling activities to meet client demand and changing housing market conditions. For example, 55 percent of all those seeking counseling in fiscal year 2012 sought foreclosure prevention assistance. By comparison, in 2006, 10 percent of counseling activities focused on foreclosure prevention since there was significantly less demand. While foreclosure prevention counseling has been critical, pre-purchase counseling, rental counseling, homeless counseling and home buyer education have accounted for more consumers in total since 2006. Based on current trends, we expect in 2014 that housing counseling will focus on financial capability in budgeting and credit, pre-purchase counseling, rent-to-own, anti-scam, rental counseling, home maintenance and homelessness prevention. Foreclosure prevention, while not growing, is anticipated to remain a significant need in 2014 as counselors work to connect at-risk owners to new solutions including expanded refinance opportunities and relief through the National Mortgage Servicing Settlement.

### *Key Partners and Stakeholders*

HUD's housing counseling program works closely with numerous federal, state and city programs as well as private initiatives to leverage dollars and resources to improve families' housing situations. With the launch of the Office of Housing Counseling, HUD has reached out to several hundred counseling agencies through listening tours or meetings in 36 states. We have developed linkages to formal and informal housing counseling networks on the state, local, regional and national levels. Industry partnerships are a critical part of the success of housing counseling, and HUD meets regularly with industry representatives from HOPE NOW, the Financial Services Roundtable, various real estate trade associations and professionals, and other experts in financial and housing education. Staff of the Office of Housing Counseling participates in the following formal task forces:

- Financial Literacy Education Consortium;
- Making Home Affordable outreach initiatives;
- Loan Scam Alert campaign;
- Interagency Mortgage Fraud Task Force; and

## Housing Counseling Assistance

- National Industry Standards for Homeownership Education and Counseling.

The Office of Housing Counseling has developed a network of state, regional and local providers, for the first time connecting state Attorneys General with Governors' offices and Housing Finance Agencies, to leverage state funds and disseminate best practices in state and local housing counseling programs. HUD Housing Counseling leadership is in high demand to speak at major conferences, with recent engagements including:

- Bipartisan Policy Center's Housing Commission;
- Association of Independent Consumer Credit Counseling Agencies;
- Montana Homeownership Network;
- National Council of La Raza;
- Federal Reserve Bank of San Francisco; and
- Making Home Affordable events.

HUD works closely with leading national researchers in the area of mortgage performance and housing outcomes including:

- Harvard University;
- University of North Carolina;
- University of Wisconsin-Madison;
- Ohio State University;
- Abt Associates; and
- Urban Institute.

HUD housing counseling is a widely recognized element in the success of other policy initiatives. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the following HUD programs to coordinate their activities with the Office of Housing Counseling:

- Community Development Block Grant Program;
- HOME Investment Partnership Act: CHDO set-aside;
- Second Mortgage Assistance for First-Time Homebuyers;
- Rural Housing Stability Grant Program;
- Public Housing Operating Fund;
- Section 8 Tenant-Based Rental Assistance Homeownership Option;
- Demolition and Disposition of Public Housing;
- Family Self-Sufficiency;
- Public Housing Resident Homeownership Programs;
- Conversion of Distressed Public Housing to Tenant-Based Assistance;

## Housing Counseling Assistance

- LIHPRHA Prepayment Options;
- NAHASDA Housing Block Grants;
- Native Hawaiian Housing Block Grants; and
- Section 8 Rental Assistance.

In addition, the following federal, state and local programs encourage or require counseling by HUD-approved counseling agencies as an element of program eligibility to ensure funds are well utilized by the consumer over the long-term:

- Federal Home Loan Bank First-Home Club matched savings programs;
- Neighborhood Stabilization Program (HUD);
- GSE REO-to-Rental program (Fannie Mae and Freddie Mac);
- HOEPA (high cost) loans (Consumer Financial Protection Bureau);
- Certain HAMP modifications (Treasury);
- HECM-insured loans (reverse mortgages) (HUD);
- Independent Foreclosure Review (OCC and Federal Reserve); and
- Rural mortgage loans (Department of Agriculture).
- State and local initiatives:
  - Settlement conferences (9 states require counseling for their mediation programs per National Consumer Law Center);
  - Down payment assistance and loss mitigation programs (e.g. Pennsylvania's Homeowners' Emergency Mortgage Assistance Program (HEMAP); most State Housing Finance Agencies); and
  - Seventeen HFAs (33 percent) require homebuyer education and counseling services for all their loan products, and 25 (49 percent) require it for some of their loan products.

In addition, the National Mortgage Servicing Settlement depends upon housing counselors to help consumers access relief programs and monitor servicer compliance (whether or not states have chosen to use settlement funds to fund housing counseling directly).

While these and other programs require or incentivize housing counseling, typically they do not pay for the required housing counseling services. As noted above, the vast majority of HUD housing counseling clients are low- and moderate-income Americans, and disproportionately racial and ethnic minorities. HUD requires foreclosure prevention counseling to be offered free of charge in order to help consumers distinguish legitimate HUD-approved counseling from scams seeking a quick cash payment. Free housing counseling services also ensures the broadest possible availability of counseling to the targeted audience. Without HUD funding, there will not be a sufficient supply of housing counseling to support these programs, making them less effective. Fewer households will save their homes or purchase homes through these programs.

Economic recovery initiatives directed at revitalizing neighborhoods affected by foreclosures and restoring consumer confidence in credit markets also benefit from housing counseling. Counselors coordinate with state and local programs to target educated first-

## Housing Counseling Assistance

time homebuyers to buy previously foreclosed properties newly renovated through public and private efforts. They work with clients to repair credit histories damaged by mortgage default, high debt or blemishes caused by unemployment, making them eligible to participate responsibly in mainstream financial programs.

HUD's housing counseling program contributes to every Department Strategic Plan goal. The outcomes of foreclosure prevention counseling are tracked as part of Goal 1: Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers. HUD housing counselors working to increase savings and improve credit history for renters are providing well-prepared occupants for HUD programs contributing to Goal 2: Meet the Need for Quality Affordable Rental Homes. Housing counselors are expected to link consumers to other forms of assistance, furthering Goal 3: Utilize Housing as a Platform for Improving Quality of Life. Housing Counseling agencies are required to incorporate knowledge about anti-discrimination laws and the benefits of mobility, furthering the impact of Goal 4: Build Inclusive and Sustainable Communities Free from Discrimination. The streamlining and automating of housing counseling systems is an important part of Goal 5: Transform the Way HUD Does Business. As a result of our initiatives, we expect housing counseling agencies to spend less time satisfying HUD administrative requirements, and more time providing quality housing counseling to American families.

### **3. Why is this program necessary and what will we get for the funds?**

Data suggest that the foreclosure crisis, unemployment rates, a soft real estate market, high rates of homelessness, and a tight rental market will continue through 2014. Reports of scams and fraud continue at a high rate. Consumers will continue to need a trusted advisor to help them recover from recession-related housing loss and unemployment, and to regain their ability to budget, save and borrow. Congressional investment in the housing counseling industry will remain a key way to help consumers resume their contribution to their local and national economy.

Counseling provides fundamental and unbiased information to the consumer's household so that they can make the best housing choices for their situation. As the recovery from the crisis continues, housing counselors remain on the front lines. Servicers and elected officials use HUD-approved counselors as a reliable referral source for families facing foreclosure or having difficulty obtaining loan modifications. Counselors must understand the latest foreclosure prevention initiatives and have special escalation channels for cases that require additional review. For homeowners who have lost their homes, counseling provides assistance with credit repair, access to charitable funding for moving expenses, education about the rights and responsibilities of tenancy, and connection to rental opportunities. Counselors work with homelessness-prevention programs and help homeless families in shelters to find more permanent housing at less cost to the government. In all cases, counselors inform clients of their responsibilities as tenants and owners, to help them make changes to their short- and long-term spending habits to meet their housing needs, and to connect them to other types of assistance and support. Most importantly, housing counselors have a duty to their clients to provide unbiased and objective information and are an important safeguard against fraud and scams.

HUD has collected recent studies on the state of the housing counseling industry. Reports indicate that the housing counseling industry was severely weakened by funding cuts, delayed responsiveness by servicers to mortgage solutions, and sophisticated scams that left consumers wary of seeking help. Counseling agencies reported in 2012 that demand for pre-purchase, rental, and homeless counseling are at an all-time high, while foreclosure prevention counseling is surging as servicers resume foreclosure actions and sustainable mortgage resolutions are provided as a result of settlements.

However, Congress eliminated funding for HUD's Housing Counseling Program in fiscal year 2011 and agencies experienced significant funding cuts from other funders such as state and local governments, and private foundations, which has taken a major toll on the Field. As a result of funding cuts across all sectors, 1 million (33 percent) fewer consumers were assisted by HUD approved housing counseling agencies in 2011 compared to 2010. A recent survey of 297 housing counseling agencies from 26 states by the National Housing Resource Center found that over 50 percent reduced the number of clients served as a result of funding cuts, 40 percent laid off counselors. Respondents knew of 46 different agencies that had closed down their counseling program. Consumers without counseling are more likely than counseled consumers to pay more for housing, receive more expensive and less sustainable loan modifications, default on their first mortgage, and misunderstand the terms of their loan. Other research has associated housing counseling with positive results relating to savings, tenancy, reduced insurance claims, and a variety of other positive financial and housing outcomes.

## Housing Counseling Assistance

At the same time, the cost of counseling has increased. Foreclosure moratoria, settlement conferences, and prolonged unemployment have delayed consumers from qualifying for mortgage resolution, credit overlays and other underwriting requirements, and the average time each counselor must spend to qualify a consumer for a particular solution has increased despite important technological advances, like HOPE LoanPort. HOPE LoanPort has automated the collection, submission and archiving of mortgage related documentation and streamlined communication between the housing counseling agencies that directly assist borrowers seeking help with foreclosure prevention, and the lenders that service the loans. This technology has greatly reduced the incidence of lost and missing documentation, communication difficulties, and other issues which can significantly delay or prevent mortgage modification, refinance, or other foreclosure mediation assistance.

The collapse of the housing market created an opportunity for loan modification and other real estate scams to thrive. Today, the loan modification scam "industry" is booming. In February 2010, the Lawyers' Committee for Civil Rights Under Law launched the national Loan Modification Scam Database as a repository for complaints from foreclosure rescue scam victims. As of May 2012, foreclosure rescue scam victims have reported \$59.8 million in losses from fees paid to fraudulent and deceptive "rescuers". Homeowners reported paying an average \$3,062 in fees to scam organizations and individuals.

A substantial portion of this staggering total, \$16.6 million or 41 percent, was losses sustained by seniors. Counseling helps prevent loan modification scams and provide households in need with safe and legitimate mortgage modification assistance.

But other results, while undocumented, may be even more important. Counseled consumers are knowledgeable, able to develop and follow a budget, improve their residual income and reduce their debts, know their rights as tenants, borrowers and owners, and connect to their neighbors, neighborhoods, and contribute to the local and regional economy. Evidence and anecdote indicate that counseled borrowers reduce debt, avoid scams, return to stable housing, avoid depression, avoid foreclosure, and avoid homelessness at a greater rate than non-counseled consumers.

This funding request will expand the capacity and quality of the HUD-approved housing counseling network by:

- Creating and maintaining a roster of HUD-approved counselors as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act in order to provide consumers with a clear alternative to scam artists and ensure the highest quality of housing counseling services;
- Increasing the capacity of housing counseling agencies through: (i) additional training opportunities for counselors, (ii) increased consumer awareness of the benefits of housing counseling, (iii) creation or strengthening of regional and statewide housing counseling networks, and (iv) technical assistance to agencies to address the needs of underserved areas or vulnerable populations;
- Implementing initiatives to expand the accessibility and efficiency of housing counseling through streamlining and through further reductions of administrative burdens to consumers and to counseling agencies; and

## Housing Counseling Assistance

- Enhancing HUD's oversight capacity by expanding its analysis of outcome measurements, and rolling out a risk-based remote oversight program.

### **4. How do we know this program works?**

Recent research has confirmed the value of HUD-approved housing counseling to help families obtain, retain, finance, and maintain their homes. The findings from HUD studies of longitudinal outcomes of pre-purchase and foreclosure prevention counseling published in May 2012 are significant:

The "Pre-Purchase Counseling Outcome Study" provides detailed characteristics of a sample of people seeking pre-purchase counseling, including their income and credit status, their reasons for seeking counseling, the stage in the purchase process at which counseling occurs, and detailed information about the nature of counseling services delivered including total hours of counseling received, type of counseling, and which topics were covered.

The key findings of the study include:

- Most study participants were planning to purchase a home within one year (74 percent) and were motivated to seek counseling to identify homebuyer assistance programs (58 percent) or to obtain down payment or closing cost assistance or to qualify for a specific loan program (58 percent).
- Most study participants started pre-purchase counseling early in the home buying process (only 15 percent had a signed purchase agreement), had not received any kind of housing counseling or financial education within the past 3 years (66 percent) and received education on topics related to homeownership readiness, help with budgeting and improving their credit, financing a home, and shopping for a home.
- About one third (35 percent) of the study participants had become homeowners within 18 months after seeking pre-purchase counseling. Those participants who had become homeowners had higher average incomes, more money in savings, higher credit scores, and were more likely to be employed full-time and have a college degree than non-purchasers.
- The study tracked participants at 12 to 18 months after receiving pre-purchase counseling services. Only one of the purchasers had fallen at least 30 days behind on his or her mortgage payments and none had a major derogatory event on a mortgage account.

HUD's "Foreclosure Counseling Outcome Study" involved conducting baseline interviews with 824 foreclosure counseling clients, tracking the housing counseling services they received, and analyzing homebuyer outcomes through an analysis of credit report data. A follow-up telephone survey was conducted approximately 18 months after the foreclosure counseling services were delivered.

## Housing Counseling Assistance

About three-quarters of the homeowners who had fallen behind on their payments did so because of a loss of income, and very few had any savings to draw upon to pay missed mortgage payments. The study finds that large shares of counseled homeowners were able to obtain a remedy, retain their home, and become current on their mortgages. These outcomes were much more common among homeowners in the study who sought counseling before becoming delinquent or in the early stages of delinquency (1-3 months).

This study provides information on who accesses counseling services when facing challenges in paying their mortgage loan, what services those clients obtain, and identifies the outcomes the clients experienced in the following 18 months (though it cannot assert that the counseling caused the outcomes). The report's findings include:

- Most study participants attempted to contact their servicer when they first fell behind but were unsuccessful in negotiating with their lenders on their own.
- With a counselor's help, 69 percent of counselees obtained a mortgage remedy, and 56 percent were able to become current on their mortgages.
- Nearly 70 percent of clients who sought counseling before becoming delinquent were in their home and current on their mortgage payments at the 18-month follow-up period, whereas only 30 percent of clients who were 6 or more months behind at the time they entered counseling were in their home and current at follow-up.

The results suggest that counseling can help many homeowners at risk of foreclosure to negotiate and obtain mortgage remedies, and to become current on their mortgage payments. In addition, homeowners in the study who were able to obtain mortgage remedies were more likely to stay in their homes. The HUD study is also one of the few studies that documents housing outcomes in relation to specific counseling services received.

HUD has begun the design of a long-term, randomized experimental study to measure the impact of pre-purchase counseling on household outcomes. The study will track low- and moderate-income potential applicants at major national mortgage originators. Participants will be randomly enrolled in housing counseling and tracked against similar new potential applicants who do not receive from housing counseling. We expect preliminary results in fiscal year 2016.

Several major research studies published by respected independent academics have concluded that housing education and counseling programs are effective, and several additional studies are underway. Three studies conducted in the past few months provide additional evidence for its effectiveness.

J. Michael Collins and Collin O'Rourke published "Homeownership Education and Counseling: Do We Know What Works?" (2011: Housing Research Institute of America), reviewing all major studies on the topic to date. With regard to pre-purchase homeownership counseling, the researchers found:

## Housing Counseling Assistance

"A review of 10 studies provides some evidence that participation of potential homeowners in pre-purchase programs is associated with positive effects on timely loan repayment. In addition, some evidence suggests that education and counseling programs are related to higher rates of refinancing or otherwise pre-paying the loan." (Page 8)

The limitation in the quote ("some" evidence) refers primarily to the concern that the studies do not use a randomized treatment as their methodology, thus raising the concern that those who self-select counseling are more predisposed to positive outcomes. For funding purposes, however, this caveat only serves to underscore the value of making counseling available for those who seek out HUD-approved agencies. Collins and O'Rourke also reviewed studies of post-purchase counseling programs. The researchers similarly found that "A review of eight studies of post-purchase counseling suggests that counseling leads to an increase in loan modifications and a decrease in delinquencies and foreclosures." The authors make similar caveats about study methodology in the post-purchase context.

A December 2011 Urban Institute study of the National Foreclosure Mitigation Counseling (NFMC) program provided extensive evidence of positive outcomes. Although NFMC is funded separately from the HUD Housing Counseling program, it relies on HUD-approved counseling organizations, and both programs use the same training criteria for default counseling. The Urban Institute study summarizes four positive impacts of NFMC counseling, both before and after major changes to the HAMP program, including the following:

- (1) an average reduction in the monthly payment from a loan modification of \$176;
- (2) a reduction in re-default rate 9 months after a loan modification cure of nearly 70 percent when compared to non-counseled borrowers;
- (3) a 90 percent greater chance of curing a serious delinquency or foreclosure through a loan modification; and
- (4) a 36 percent reduction in foreclosure completions for borrowers counseled after changes to the HAMP program in 2010. (Mayer, et. al, "National Foreclosure Counseling Mitigation Program Final Report," 2011: Urban Institute.)

The full impact of housing counseling, however, likely extends beyond homeownership. First, the HUD-funded housing counseling program covers a broad array of household financial situations and housing needs beyond pre-purchase and foreclosure prevention (for example, preventing an eviction from rental housing will have different consequences than assisting with a responsible home purchase decision). Second, the primary goal of housing counseling and education is to provide objective and reliable advice to clients in order for them to learn to make responsible financial and housing decisions. Some studies measure counseling success by the number of new first-time homebuyers, for example; however, we believe that the decision *not* to purchase a home or *not* to take out a reverse mortgage can be equally valuable to a family, a neighborhood, and the economy.

## Housing Counseling Assistance

### *Plans to Improve this Program*

In spring 2012, HUD convened industry stakeholders and HUD staff to identify key program issues and develop recommendations for program improvements. One issue identified was the need to enhance performance metrics. In 2014, HUD will continue to build on these efforts to implement new and improved performance metrics to measure and report on housing counseling program impacts.

The Office of Housing Counseling also intends to help standardize housing counseling program practices by developing standards across counseling activities. While voluntary national industry standards for pre-purchase and foreclosure prevention counseling exist, there are no national standards for other counseling types such as rental and homeless counseling. The Office of Housing Counseling intends to research and develop program standards across all counseling types.

In light of budgetary constraints, Office of Housing is also considering different approaches to expand housing counseling services through various policy initiatives. We are reviewing the feasibility of providing incentives or establishing requirements to incorporate HUD housing counseling into a number of FHA programs appropriate for first-time homebuyers, existing homeowners, owners facing foreclosure, and property disposition programs similar to counseling incentives programs offered by states and localities.

HUD requests changes in the Housing Counseling account appropriations language for fiscal year 2014 that enhance the administration of program funds. As mentioned above, we are seeking authority to make multiyear awards (with a first year of funding provided in 2014 and subsequent years contingent on appropriations). Multi year awards will make it possible for grantees to conduct longer-term strategic planning and leverage additional resources more effectively, and also dramatically improve HUD's and the grantees' efficiency in administering the Program. The request for multiyear funding is well-informed by extensive communication with the Department's housing counseling agency stakeholders. During the course of the past year, the Department convened several roundtable discussions and focus groups with representatives of small, medium and large capacity housing counseling agencies across the country. Consistently, the request for multiyear grant awards ranked as one of the top improvements for the Housing Counseling Program. A similar approach is currently utilized under HUD's Fair Housing Initiatives program.

HUD also requests that fiscal year 2014 appropriations be available for obligation until September 30, 2015. The 2-year period of availability will allow for the redistribution of recaptured funds, and ultimately ensure that appropriated dollars are utilized for their intended purposes benefitting consumers. Two-year funding would not change HUD's determination to obligate funds as soon after appropriation as possible.

### *Information Technology Portfolio in Support of Housing Counseling*

Technology upgrades are an integral part of efforts to streamline HUD's internal processes, improve communication between HUD and housing counseling agencies, enhance counseling agency oversight, document the impact and outcomes of counseling services, and fulfill the mandates of the Dodd-Frank Act. In fiscal year 2014, Information Technology Portfolio resources may be used to:

- Automate program processes like the grant application and award process;

## Housing Counseling Assistance

- Automate risk assessments and conduct more remote performance reviews;
- Build and maintain the individual counselor roster;
- Create a searchable counseling agency roster tied to website;
- Create a Public website with outcomes and data; and
- Develop a new dashboard and data analysis system.

Housing Counseling Assistance

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

<u>Budget Activity</u>	<u>2012 Budget Authority</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2012 Obligations</u>	<u>2013 Annualized CR</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2014 Request</u>
Housing Counseling Assistance .....	\$42,546	...	\$42,546	\$42,535	\$42,806	...	\$42,806	\$50,500
Administrative Contract Services .....	<u>2,454</u>	...	<u>2,454</u>	<u>2,279</u>	<u>2,469</u>	...	<u>2,469</u>	<u>4,500</u>
Total .....	45,000	...	45,000	44,814	45,275	...	45,275	55,000

Housing Counseling Assistance

**OFFICE OF HOUSING  
HOUSING COUNSELING ASSISTANCE  
Appropriations Language**

Below is the italicized appropriations language for the Housing Counseling Assistance account.

*For contracts, grants, and other assistance excluding loans, as authorized under section 106 of the Housing and Urban Development Act of 1968, as amended, \$55,000,000, including up to \$4,500,000 for administrative contract services, to remain available until September 30, 2015: 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/literacy, and such other matters as may be appropriate to assist them in improving their housing conditions, meeting their financial needs, and fulfilling the responsibilities of tenancy or homeownership; for program administration; and for housing counselor training.*

Note.—A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Resolution, 2013 (P.L. 112–175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.