

**HOUSING
HOUSING COUNSELING ASSISTANCE
2015 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>
2013 Appropriation	\$45,000	...	-\$2,354	\$42,646	\$42,349	\$44,000
2014 Appropriation/Request	45,000	...	...	45,000	45,000	62,000
2015 Request	<u>60,000^a</u>	<u>...</u>	<u>...</u>	<u>60,000</u>	<u>60,000</u>	<u>54,000</u>
Program Improvements/Offsets	+15,000	...	...	+15,000	+15,000	-8,000

a/ This number includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent or \$15 million, whichever is less, of Budget Authority.

1. What is this request?

For fiscal year 2015, the Department requests \$60 million for the Housing Counseling Assistance program, an increase of \$15 million from the fiscal year 2014 enacted level. Funding at this level will permit the Office of Housing Counseling to meet 2 million consumers' needs to improve or restore their borrowing ability, access credit, and improve their housing quality and affordability. The fiscal year 2015 Budget request will accomplish this goal by: 1) expanding access to and awareness of the HUD-approved network of counselors, especially in 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 and understand complex programs such as reverse mortgages or loss mitigation programs; 3) implementing statutory requirements including testing and certification of individual housing counselors and the creation of a Federal Advisory Committee; 4) launching policies that increase access to housing counseling; and 5) supporting HUD's initiatives to expand oversight while streamlining the program. This funding will:

- Meet Congressional mandates including increased awareness of housing counseling, certification of housing counselors , housing counseling content standards, and creation of a Federal Advisory Committee for the Office of Housing Counseling (Mandated by Dodd Frank);
- Expand aspects of the program consistent with recent research findings documenting the long-term effectiveness of HUD's housing counseling program.

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- Allow HUD-approved housing counselors to help consumers affected by the recession to be part of the housing and economic recovery;
- Continue to respond to the continued impact of unemployment, foreclosure, (42.9 percent of all those seeking counseling in fiscal year 2013 sought foreclosure prevention assistance), credit shocks, tight underwriting standards, and changing housing needs;
- Link housing counseling to FHA origination and servicing, enhancing FHA's fiscal health as well as providing a larger number of families with the benefits of housing counseling through initiatives under the new FHA-HAWK (Homeowners Armed With Knowledge) program umbrella;
- Provide a gateway to legitimate housing assistance and a barrier to scams and fraud;
- Deliver funding to grantees quickly and reduce grantee administrative burden with improvements in the grant process; and
- Invest in systems to analyze need, monitor activities, and track outcomes of housing counseling.

The majority of the funding requested in this account, an estimated \$52.5 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 \$3 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, Public Law (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 2015, we estimate that 2,650 HUD-approved housing counseling agencies employing an estimated 8,000 newly certified housing counselors, will assist a total of 2 million renters and owners to obtain, maintain or preserve their homes by making informed choices about their financial and housing options. Policy initiatives, such as the HAWK (Homeowners Armed With Knowledge) program to strengthen the FHA MMI fund through housing counseling, will increase awareness and access to housing counseling.
- We estimate that HUD Housing Counseling grants will leverage at least \$347 million in other public and private funding, resulting in HUD-approved housing counseling agencies helping more than 2 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.

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- In 2015, 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.
- We will continue to implement statutory mandates in 2015. Based on current timeframes, the Office of Housing Counseling expects to implement the requirement to certify and test all housing counselors in 2015, and to set standards for counseling content. We will convene a new Federal Advisory Committee, and we will continue to improve business processes to reduce administrative cost burdens to housing counseling agencies. We will also continue to monitor agencies through risk-weighted performance reviews.
- We expect to implement improvements to the housing counseling systems to document program activities and outcomes. This project will be informed by IT initiatives expected to begin in 2014 as well as preliminary results from a major housing counseling research study sponsored by HUD's Office of Policy Development and Research.

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

Fiscal year 2015 will mark the third year of operation of the Office of Housing Counseling (OHC). The mission of the OHC 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 71 FTE are requested for the Housing Counseling Programs in fiscal year 2015. This is an increase of 6.9 from the fiscal year 2014 level. Total S&E funding is \$9.774 million, an increase of \$973 thousand from the fiscal year 2014 level. The increase of 6.9 FTE is requested to assist with the required testing and certification of individual counselors, and to work on policy initiatives such as designing and implementing major modifications to the HECM counseling protocol and program handbook; creating and updating performance impact reports; working with other HUD programs that have a counseling element to ensure program consistency with OHC and Dodd-Frank requirements. For further details, please see the justification "Salaries and Expenses – Office of Housing."

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<i>(Dollars in Thousands)</i>				
	Personnel Services	Non-Personnel Services	Total	FTE
Outreach and Capacity Building	\$3,027	\$44	\$3,071	22.3
Policy and Grants Administration	4,139	59	4,198	30.5
Program Oversight and Accountability	2,470	35	2,505	18.2
Total	9,636	138	9,774	71.0

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 housing counselors provide an important safeguard against discrimination, 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, provide access to credit, and give them greater stability and confidence. This is especially true for those affected by unemployment, poor credit, inappropriate mortgage choices, and high debt during the years following the recession.

Housing counselors increase awareness of both rights and responsibilities of homeownership and rental tenancy, addressing fundamental concepts such as anti-discrimination laws, 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. They connect families to state, local, federal and charitable resources that can mean the difference between stable housing and involuntary relocation or even homelessness.

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

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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. HUD issued a program guide documenting the value of housing counseling in disaster recovery; see: <http://portal.hud.gov/hudportal/documents/huddoc?id=SandyHsgCounsPrqmGuide.pdf>

Who benefits from HUD Housing Counseling Assistance?

Since 2009, HUD-approved counseling agencies have helped over 11.2 million Americans to address housing challenges, as follows:

- Counseling for foreclosure prevention: 5,030,357 (44.84%)
- Group Education on variety of housing issues: 2,871,969 (25.60%)
- Counseling for assistance with rental housing: 1,096,016 (9.78%)
- Counseling for home purchase: 1,044,511 (9.31%)
- Counseling for other homeownership issues: 949,831 (8.46%)
- Counseling to seniors to obtain a reverse mortgage: 407,591 (3.63%)
- Counseling to homeless and at-risk of homelessness: 174,510 (1.56%)

HUD's housing counseling program reaches underserved Americans. In 2013, 55.63 percent of counseled clients were racial minorities; 17 percent were Hispanic; and 65 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).

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- 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 several ways. HUD's Office of Housing Counseling certifies counseling agencies, makes training and technical assistance available to them, and reviews them for compliance with HUD guidelines, standards and rules. HUD also works with other federal, state, and local governments as well the real estate industry to develop policies and programs that benefit from housing counseling. 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 flexible service delivery and rapid response to consumer needs described above.

One of the benefits of the grant program design is that with HUD support, housing counseling agencies can adjust their services across counseling activities to meet client demand and changing housing market conditions. For example, 42.9 percent of all those seeking counseling in fiscal year 2013 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 2015 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 2015 as counselors work to connect at-risk owners to new solutions including expanded refinance opportunities and relief through the National Mortgage Servicing Settlement and other opportunities.

HUD works closely with its network of approximately 2,400 HUD-approved housing counseling agencies, intermediaries and stakeholders to monitor the changing nature of housing finance, housing affordability, foreclosures, scams, 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, after Hurricane Sandy devastated the northeast in October 2013, OHC engaged housing counselors in discussions to learn about the challenges facing their clients and communities. As a result of those discussions, HUD released several model programs designed to help communities get Community Development Block Grant Disaster Recovery (CDBG-DR) funds more expeditiously to residents struggling to rebuild, repair or restore their homes. Not all

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CDBG-DR grantees have the capacity or institutional knowledge to develop programs quickly after a disaster. For this reason, HUD developed these tool kits or 'Programs in a Box' that grantees can readily utilize to speed program implementation. Sandy-affected grantees have used these toolkits to establish housing counseling for residents that are experiencing financial hardship while repairing their homes. Other program initiatives include sharing innovative practices among agencies and promoting the value of housing counseling to other government partners as well as private industry and directly to consumers.

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 nearly every state and territory. 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 lending institutions, HOPE NOW, the Financial Services Roundtable, various real estate trade associations and professionals, academics, 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,
- The HOPE NOW loan servicers collaborative, and
- National Industry Standards for Homeownership Education and Counseling.

The Office of Housing Counseling's monthly newsletter, [The Bridge](#), reaches an audience of nearly 10,000 and has become a key vehicle for sharing model programs and practices across the country. The Office of Housing Counseling has developed an informal 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;
- Mortgage Bankers Association;
- Office of the Comptroller of the Currency;
- Federal Reserve Banks of San Francisco and Baltimore; and
- Making Home Affordable events.

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

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

- Loss Mitigation alternatives under Home Affordable Modification Program (HAMP, US Treasury);
- Federal Home Loan Bank First-Home Club matched savings programs;
- Various disclosures and requirements under mortgages regulated by the Consumer Financial Protection Bureau;
- Neighborhood Stabilization Program (HUD);
- GSE REO-to-Rental program (Fannie Mae and Freddie Mac);

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- 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);
- Rural mortgage loans (Department of Agriculture; and
- 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 Housing Finance Agencies (HFAs) (33 percent) require homebuyer education and counseling services for all their loan products, and 25 HFAs (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-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

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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?

Congressional investment in the housing counseling industry will remain a key way to help consumers resume their contribution to their local and national economy. Data suggest that as the nation emerges from the foreclosure crisis, the Department will continue to address the challenges posed by unemployment rates, a soft real estate market, homelessness, and a tight rental market through 2015. 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.

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.

In short, housing counseling helps families in any number of ways:

- Housing Counselors provide unbiased assistance to help clients resolve their housing problems or needs;
- Provide group education and one-on-one housing counseling in person, by internet, and telephone... where, when and how the client wants the information;
- Review client's financial situation and housing needs;
- Create a budget and design an action plan with the client;
- Refer clients to appropriate community resources and provide access to benefits and government programs;

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- Contact lenders to help resolve mortgage delinquencies;
- Address unrealistic client expectations; and
- Avoid fraud and scams, and provide resources to recognize and combat housing discrimination.

Moreover, housing counseling provides value to lenders and other members of the real estate industry:

- Housing counselors divert inappropriate applicants from homeownership by helping them assess readiness and responsibilities;
- Identify “ready” applicants who may not be reached by traditional marketing efforts;
- Increase consumer confidence in traditional banking;
- Improve borrower risk profile by increasing savings, reducing debts, correcting credit reporting errors, and increasing disposable income;
- Provide a second look program for applicants who are denied loans;
- Provide feedback to make products and services more competitive;
- Provide access to subsidies and assistance programs to increase affordability;
- Help consumers identify and access default solution alternatives;
- Assist servicers to comply with Single Point of Contact and other servicing rules; and
- Confirm adequacy of fair housing and fair lending protocols.

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 2013 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

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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.

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, is a nonprofit created by loan servicers to integrate housing counseling documentation into the foreclosure process. 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. Nevertheless, disputes over proper documentation, violations of servicing standards, changing guidelines for loss mitigation and changing borrower circumstances all lead to increased time and cost of counseling for these difficult cases.

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, 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:

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- Creating and maintaining a roster of HUD-approved housing 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;
- Increasing awareness of housing counseling and promoting policies like FHA-HAWK that provide benefits to consumers who have completed counseling with a HUD-approved housing counseling agency;
- 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
- 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 that this program works?

Evidence continues to mount regarding the effectiveness of housing counseling. Recent research (summarized below) has confirmed the value of HUD-approved housing counseling to help families obtain, retain, finance, and maintain their homes. Although most of the recent studies have attempted to control for selection bias, 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 are currently 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.

Recent research includes the following:

- A 2013 study by Freddie Mac found strong evidence that participating in pre-purchase homeownership counseling reduces delinquency rates. Freddie Mac analyzed nearly 38,000 purchase money and fixed-rate loans made under Freddie Mac's affordable lending programs between 2000 and 2008. Nearly 60 percent of the sample are first-time home buyers and 10 percent of those were non-counseled. Key findings include:
 - Pre-purchase counseling provides a significant reduction in delinquency rates. Delinquency rates of borrowers receiving counseling are 15 percent lower than those not receiving counseling;

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- The effect is mostly due to the significant impact of pre-purchase counseling on first-time home buyers. First-time buyers' delinquency rates are reduced 29 percent from receiving counseling;
- A 29 percent reduction in delinquency rates reduces default costs to lenders by about \$1,000; and
- Classroom, home study and telephone counseling are all effective.
- In a study published in 2013, Neil Mayer and Associates, together with Experian, using information on about 75,000 loans originated between October 2007 and September 2009, analyzed the impact of pre-purchase counseling and education, provided by housing counseling agencies in NeighborWorks America's network, on the performance of counseled borrowers' mortgages. It compared mortgage performance for counseled buyers over 2 years after the mortgages are originated to mortgage performance of borrowers who receive no such services. The key finding of the study is that:
 - Clients receiving pre-purchase education and counseling from NeighborWorks organizations are one-third less likely to become 90+ days delinquent over the 2 years after receiving their loan than borrowers who did not receive counseling from NeighborWorks organizations.
 - The findings are consistent across years of loan origin, even as the mortgage market changed in a period of financial crisis.
 - The findings apply equally both to first-time homebuyers and to repeat buyers.
- The findings from HUD studies of longitudinal outcomes of pre-purchase and foreclosure prevention counseling published in May 2012 are also significant: http://www.huduser.org/portal/publications/hsgfin/pre_purchase_counseling.html

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.

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- 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.

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

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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.

- A December 2011 Urban Institute study of the National Foreclosure Mitigation Counseling (NFMC) program also provided extensive evidence of positive outcomes. Although NFMC is funded separately from the HUD Housing Counseling program, it relies on HUD approved housing 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:
 - An average reduction in the monthly payment from a loan modification of \$176;
 - A reduction in re-default rate 9 months after a loan modification cure of nearly 70 percent when compared to non-counseled borrowers;
 - A 90 percent greater chance of curing a serious delinquency or foreclosure through a loan modification; and
 - A 36 percent reduction in foreclosure completions for borrowers counseled after changes to the HAMP program in 2010. (Mayer, et. Al, "National Foreclosure 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.

Plans to Improve this Program

In fiscal year 2015, OHC plans to continue to design and implement necessary program improvements.

- Streamlining and improving the housing counseling grant process. OHC's fiscal year 2014-2015 NOFA is an improved version of the new, streamlined NOFA model that OHC issued last year. In fiscal year 2013, OHC implemented several procedural changes that encouraged efficient and effective counseling programs, and reduced administrative burdens on applicants and HUD through a streamlined NOFA application and program requirements. OHC has improved upon the revised NOFA model by adjusting the funding methodology; further streamlining the application format; allowing for awards of both fiscal year 2014 and 2015 grant funds, subject to the availability of appropriations and any other authority that may govern the award

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of fiscal year 2015 funds, on the basis of a single NOFA competition; and placing greater emphasis on oversight and quality control activities.

- With a single Notice of Funding Availability (NOFA), or request for grant proposals, to be published in fiscal year 2014, HUD proposes to conduct a competition for housing counseling grant funding that covers both 2014 and 2015. HUD would use the applications received under this fiscal year 2014 NOFA, and the corresponding scores and published funding methodology relevant to this NOFA, to make awards for fiscal year 2014, utilizing fiscal year 2014 appropriations. HUD proposes to use the same list, and same published funding methodology framework, to award fiscal year 2015 funds, subject to the availability of appropriations and any other authority that may govern the award of fiscal year 2015 funds.
- The use of a 2014-2015 NOFA enables HUD to make awards quickly after fiscal year 2015 appropriations become available. Additionally, a 2014-2015 NOFA will significantly reduce the application burden for counseling agencies at a time when many counseling agencies are subject to other new requirements, including counselor testing and certification, and allows counseling agency staff to utilize time that would be spent on annual NOFA application preparation to provide improved counseling and education to consumers and comply with new requirements.
- HUD reserves the right to issue a supplemental or independent NOFA in fiscal year 2015 for various reasons, including but not limited to responding to new needs, statutory conditions, permitting newly approved agencies or new applicants to apply, or providing for a specific housing counseling related activity, for example to support HUD's efforts to embed housing counseling in FHA programs.
- Performance metrics. The creation of the new office was an opportune time to evaluate alternatives to current reporting methods. The Office of Housing Counseling's vision for program performance metrics is to capture accurate, meaningful data to help evaluate the impact of the program but at the same time make reporting tools more user-friendly, realistic and sensitive to stakeholder resources and capacity. The response was to create a substantially revised HUD-9902, the form HUD uses to gather information from housing counseling agencies. It is a simplified reporting format that includes specific outcomes known to the counseling agency that demonstrate tangible benefits for the consumer. Agencies will be allowed to input multiple positive outcomes for the same household. The new form has received Paperwork Reduction Act approval and will be effective in October 2015 to give agencies time to adjust their systems.
- Homeowners Armed with Knowledge (HAWK). In fiscal year 2015, OHC will continue to explore program strategies to embed housing counseling into FHA program in order to benefit families and also to reduce risk to the FHA MMI Fund. Housing counseling enables borrowers to better understand their loan options and obligations and assists borrowers in the creation and assessment of their household budget, accessing reliable information and resources, avoiding scams, and being better prepared for future financial shocks, among other benefits. Recent research shows that counseled borrowers have

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significantly fewer delinquencies and defaults compared with non-counseled borrowers with similar credit profiles. In fiscal year 2013, OHC and the Office of Single Family Housing successfully rolled out the first HAWK initiative through FHA's new Back-to-Work program. The Back-To-Work program is targeted to borrowers affected by the recent recession, who experienced unemployment or other severe reductions in income, were unable to make their monthly mortgage payments, and ultimately lost their homes to a pre-foreclosure sale, deed-in-lieu, or foreclosure. Some borrowers were forced to file for bankruptcy to discharge or restructure their debts. Because of these recent recession-related periods of financial difficulty, borrowers' credit has been negatively affected. FHA recognizes the hardships faced by these borrowers, and realizes that their credit histories may not fully reflect their true ability or propensity to repay a mortgage. To that end, FHA is allowing for the consideration of borrowers who have experienced an *Economic Event* and can document that: 1) certain credit impairments were the result of a Loss of Employment or a significant loss of Household Income beyond the borrower's control; 2) the borrower has demonstrated full recovery from the event; and 3) the borrower has completed housing counseling. Borrowers that meet these criteria are required to seek pre-purchase counseling or homebuyer education to be completed a minimum of 30 days but no more than 6 months prior to submitting a loan application to a lender.

- In 2015, additional HAWK initiatives will be introduced. HAWK for New Homebuyers will provide MIP incentives for first-time homebuyers that engage with HUD-approved housing counselors at key decision points before purchase and during the first year after closing. Disclosures and releases will make it easier for homeowners to access housing counseling agencies before they fall delinquent on their FHA mortgages. And certain loss mitigation options will include housing counseling as a key element.
- Housing Counselor training and certification. The Dodd-Frank Act of 2010 requires that individual housing counselors participate in HUD's Housing Counseling Program shall demonstrate by written examination competence in providing counseling in six areas: financial management; property maintenance; homeownership and tenancy; fair housing laws and requirements; housing affordability; and avoidance of rental and mortgage delinquency and eviction and mortgage default.

This statutory mandate requires that the Department make a significant investment in the development or training and testing in an industry of approximately 8,000 counselors. In fiscal year 2013, HUD awarded a contract to assist with the development of training materials as well as the design and administration of an exam. In addition, the Department initiated rulemaking to implement the legislation. Once a final rule is published, HUD anticipates that the rule will become effective in fiscal year 2015.

- Housing Counseling Federal Advisory Committee (HCFAC). In fiscal year 2015, OHC plans to have in place a Federal Advisory Committee as mandated by the Dodd-Frank Act. The purpose of the HCFAC is to provide advice regarding the carrying out of the functions of the OHC. OHC will benefit from the experience and perspective of housing industry experts, housing counseling agencies and consumers. The HCFAC will provide a forum for those involved in housing counseling to offer advice

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directly to the Deputy Assistant Secretary for the OHC on a regular basis. In fiscal year 2014 OHC plans to publish a Federal Register Notice inviting individuals to apply for a position on the Committee. As specified by statute, the Committee will consist of no more than twelve individuals. The membership will equally represent the mortgage and real estate industry including consumers, and housing counseling agencies approved by the Secretary.

- Examine standards for Program Approval, Materials, Training, Testing, and Software Systems. The OHC also intends to help standardize housing counseling program practices by developing standards across housing 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. Research has begun and program standards across all counseling types will be developed in fiscal 2015. The Dodd-Frank Act also requires HUD to certify software systems for consumers to compare mortgage products to individual financial situations. In fiscal year 2015, OHC will be engaged in a review of current systems and developing a certification plan for implementation.

5. Legislative/Regulatory Proposals

Proposals included in the 2015 Request (items 1 through 5 were also proposed in the fiscal year 2014 President's Budget)

1. **Multiyear NOFAs:** This proposal would give HUD permanent and explicit authority to publish multi-year NOFAs for housing counseling grants, subject to appropriation, in the ordinary course of annual grant making, and not solely during times of exigency when housing counseling agencies are faced with major new compliance obligations. It allows the Housing Counseling Program to fund high performing agencies for multiple years under one NOFA and application, reducing application and administrative burden for the grantee and the Office of Housing Counseling. It would also allow counseling agency staff to utilize time that would be spent on annual NOFA applications to provide improved counseling and education to consumers. HUD would issue one NOFA, and execute a grant agreement with successful applicants, covering the first fiscal year. An award of additional year funding would be subject to the availability of appropriations, and any other authority that may govern the award of funds. HUD would reserve the right to issue a supplemental, independent, or single year NOFA, in addition to a multi-year NOFA.
2. **Flexibility in Counselor Certification Requirements:** This proposal would allow HUD to substitute training for a written examination under certain conditions for the purpose of counselor certification. This recognizes that some existing training and testing may cover subject areas required by statute, and responds to numerous comments HUD received after publishing the draft rule. It would reduce training and testing costs for counseling agencies and HUD, the alleviate some

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of the pressure associated with getting the entire counseling industry trained and tested at once, and ensure that HUD has the capacity to test and certify applicable counselors during the initial certification period.

3. **Multiple Testing/Certification Providers:** This proposal would allow HUD to contract with more than one entity to provide counselor testing for certification required by the Dodd-Frank Act. More than one entity would allow for meeting the peak demand for the exam and would expand access to the certification process in different languages and modalities. It would also help ensure that there is no disruption in testing and certification should a testing/certification provider be unable to continue providing services for any reason.
4. **Distribution of Private Funds for Housing Counseling:** This proposal would allow HUD to receive and distribute funds from private entities for housing counseling. Private funding from sources, such as forward and reverse mortgage lenders, and servicers, could be efficiently and impartially distributed by HUD to qualified counseling agencies. Presently, however, these private sources of funding are barred under the Anti-Deficiency Act. The private entities represent significant stakeholders in the housing counseling industry and have requested HUD's assistance to distribute private funds to support housing counseling agencies. This proposal would also eliminate any appearances of a conflict of interest between agencies and funders and responds to inquiries by industry and enforcement officials seeking an impartial, national vehicle to distribute funds to housing counseling agencies. Moreover, with the demand for housing counseling services increasing at a faster rate than other federal and other grant monies to housing counseling agencies, private funding could help fill the financial gap.
5. **Two-Year Funding Availability:** This proposal would provide flexibility to HUD when obligating administrative contracts and any recaptured grant funds. It would change the Housing Counseling Assistance appropriation language so that funds would be available for 2 years rather than 1 year. While HUD strives to award contracts as quickly as possible, obligation typically occurs near the end of the fiscal year. Extending the availability of these funds provides HUD additional flexibility should procurement obligation be disrupted in an unforeseen way, or otherwise not be possible at the end of the first year. This would also provide HUD the flexibility, in case of unforeseen circumstances, to reprogram unobligated balances and re-obligate any recaptures so they can be used to support counseling activity rather than expire.

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Use of Technology in Support of Housing Counseling

- HUD is identifying Departmental technology solutions and services in an efforts to streamline HUD's internal processes, modernize its reporting and analysis capacities, 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 Wall Street Reform and Consumer Protection Act. In fiscal year 2014 OHC is working with Office of the Chief Information Officer (OCIO) to ensure OHC technology solutions are aligned with HUD's enterprise architecture. OHC will continue further implementation of these technology initiatives in fiscal year 2015. Information Technology Portfolio resources may also be used to:
 - Automate program processes like the grant application and award process;
 - Automate risk assessments and conduct more remote performance reviews;
 - Integrate oversight into the IT systems;
 - 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, reporting and data analysis capability.

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

<u>Budget Activity</u>	<u>2013 Budget Authority</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2013 obligations</u>	<u>2014 Budget Authority/ Request</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2015 Request</u>
Housing Counseling Assistance	\$40,277	...	\$40,277	\$40,261	\$40,500	...	\$40,500	\$55,500
Administrative Contract Services	2,369	...	2,369	2,088	4,500	...	4,500	4,500
Transformation Initiative (transfer)	[300]
Total	42,646	...	42,646	42,349	45,000	...	45,000	60,000

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Appropriations Language**

The fiscal year 2015 Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

For contracts, grants, and other assistance excluding loans, as authorized under section 106 of the Housing and Urban Development Act of 1968, as amended, [~~\$45,000,000~~ *\$60,000,000*, including up to \$4,500,000 for administrative contract services *to remain available until September 30, 2016: Provided,* [That grants made available from amounts provided under this heading shall be awarded within 120 days of enactment of this Act: *Provided further,*] 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. (*Department of Housing and Urban Development Appropriations Act, 2014.*)