

Housing Counseling Works – Sustainable Homeownership December 2014

The following is a brief summary of the research evidence on the role of housing counseling in reducing mortgage delinquency and foreclosure and on helping first-time buyers access and sustain homeownership.

Post-Purchase Foreclosure Mitigation Counseling

There is strong evidence that housing counseling can be an effective intervention in helping distressed homeowners avoid foreclosure. A report by Temkin et al (2014) sponsored by the Urban Institute reviewed outcomes associated with 240,000 loans that received counseling under the National Foreclosure Mitigation Counseling program. Counseled clients were 2.83 times more likely to receive a loan modification, and 70% less likely to redefault on a modified loan. Counseled clients had modifications that saved them \$732 per year compared to modifications given to non-counseled borrowers.

Other studies found similar benefits to housing counseling, including the following:

- Jefferson et al. (2012) HUD study of homeowners who sought foreclosure counseling found that counseling helped homeowners to obtain a mortgage remedy and become current on their mortgages, early intervention matters, and telephone counseling provided an important alternative resource for individuals and communities—particularly those living in areas without an in-person counseling provider.
- Collins and O'Rourke (2011) review 8 prior studies on the effectiveness foreclosure intervention counseling – most show fewer completed foreclosures, and an increased likelihood of loan modification at better terms among counseled borrowers.
- A nationwide Urban Institute study by Mayer, et al., (2010) of the foreclosure mitigation counseling program found that borrowers in foreclosure were 70 percent more likely to get up-to-date on payments if they received the counseling.
- The same Urban Institute study showed that homeowners who received a mortgage modification to resolve a serious delinquency were 45 percent more likely to sustain that modification if it was obtained with the help of counseling.

Time spent with a client is important. A 2008 study by Quercia and Cowan of the Mortgage Foreclosure Prevention Program in Minnesota found that one extra hour improved the odds of the client avoiding foreclosure by 10 percent, and eight additional hours doubled the odds of avoiding foreclosure.

Early intervention is also important. Both the Jefferson et al. (2012) and Collins and Schmeiser (2010) found that borrowers who received counseling in the early stages of default were far more likely to receive a loan modification and/or keep their homes than those who received counseling when they were seriously delinquent or in foreclosure.

Families who participated in foreclosure mitigation counseling were also better able to negotiate modifications that lowered monthly costs. Mayer, et al. (2010) found that the monthly payments

of households that received modifications after counseling were, on average, \$267 less than those who received modifications but did not participate in counseling.

Pre-Purchase and Post-Purchase (non-default) Housing Counseling

A randomized field experiment found that pre-purchase homeownership counseling had positive long-term effects on credit score, debt levels and delinquencies on debt. There was no observable impact on timeliness of mortgage payments. (Smith et al, 2014).

A study of the two-year loan performance of over 18,000 pre-purchase counseling clients from the NeighborWorks America's network of counseling agencies finds that those counseling clients are one-third less likely to become 90+ days delinquent in the two years since obtaining their loan than a matched comparison group of similar borrowers who did not receive pre-purchase counseling from NeighborWorks® America agencies (Mayer and Temkin, 2013). The study findings hold true for borrowers regardless of loan origination year (October 2008 through September 2009) and for both borrowers who are first-time homebuyers and those who are repeat homebuyers.

A recent randomized field experiment (Collins et al., 2013) that tested free quarterly “telephone financial coaching” for one year after home purchase found an 11.1 percent reduction in mortgage default rates for first-time home buyers with subprime credit histories (credit scores below 680).

In a recent case study documenting the effectiveness of affordable loan programs that require homeownership education and counseling, the UNC Center for Community Capital (2012) analyzed mortgage delinquency rates for more than 15,000 families who purchased a home through the Massachusetts' SoftSecond Loan program from 1990 through 2010. They found that these loans performed better than subprime loans and even prime loans in Massachusetts. The reasons for the program's success seem to be strong underwriting supported by pre- and post-purchase counseling for homeowners.

A Turnham and Jefferson (2012) HUD study analyzed the outcomes of pre-purchase counseling clients 18 months after completing counseling and found that 35 percent of the participants became homeowners, with only 1 person falling 30 days or more behind in their mortgage payments.

A review of 10 prior studies by Collins and O'Rourke (2011) finds that counseling provided before a household purchases a home can reduce the likelihood of mortgage delinquency. Most studies have found that pre-purchase counseling leads to positive results, reducing delinquency anywhere from 19 to 50 percent, although some studies reported no impact. However, the studies examined suffer from methodological constraints because none of the studies were randomized experiments so the effect of the counseling cannot be differentiated from characteristics of the individuals who participated in the counseling services.

Agarwal et al. (2010) analyzed the effect of voluntary counseling on low- and moderate-income households and found that improved loan performance is attributable to the type of mortgage contract, budgeting and credit management skills taught by counselors, and active post-purchase counseling to address early stage delinquencies.

How counseling is delivered matters. A widely cited study by Hirad and Zorn (2001) found that face-to-face counseling was the most effective mode of delivering counseling, resulting in a 34 percent reduction in delinquency for participating homeowners.

Pre-purchase counseling can help reduce the likelihood of default and foreclosure by helping individuals determine if they are ready for homeownership, and by connecting them with safer and more affordable mortgage products. Reid (2006) estimated that 30 to 50 percent of subprime borrowers prior to the housing crisis could have qualified for a prime loan. Prime loans, when well-underwritten to low- and moderate-income borrowers, have much lower default rates than subprime loans made to comparable borrowers according to Ding, Quercia, and Ratcliffe (2007).

Additional research is underway to improve the understanding of the impact of homeownership counseling. Researchers have employed a variety of methods to examine the effects of homeownership counseling but to date have not conducted an experimental trial. Research comparing outcomes for households randomly selected to receive pre-purchase homeownership counseling against control groups of households that receive information without counseling would make a significant contribution to the field. Five such random assignment studies are underway (two are examining different types of pre-purchase counseling and three are testing different types of pre-closing and post-purchase counseling):

- The Department of HUD is implementing a controlled experiment to measure the impact of pre-purchase counseling on a random sample of 6,000 pre-purchase counsees over time. HUD is working with large national lenders to refer potential customers at the prequalification stage and randomly assign them to one of two forms of counseling or a control group that will receive no counseling. .
- Fannie Mae is conducting two counseling experiments. The first experiment is a post-closing counseling pilot being conducted with the Housing Preservation Foundation, Chase Mortgage Company and CCCS of San Francisco where they plan to enroll 1,000 homeowners each to the experimental group that will receive post-closing counseling up to the 1st mortgage payment and the control group. This experiment is targeting first-time homebuyers who obtain 30-yr fixed, Fannie Mae loans and have greater than 85 percent LTV.
- Fannie Mae is also conducting a post-modification counseling experiment for HAMP clients with CredAbility (formerly CCCS of Atlanta). This post-mod experiment will have 1,500 HAMP clients with no previous record of counseling and a debt-to-income ratio of less than 55 before the modification (to avoid double counseling). This experiment is targeting homeowners who have made one payment on a HAMP trial modification and will assign 500 homeowners to each of the two experimental groups, who will receive either counseling or a phone call reminder to make their subsequent mortgage payments, and a control group that will receive nothing.

References

Agarwal, Sumit, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff. 2010. "Learning to Cope: Voluntary Financial Education and Loan Performance during a

Housing Crisis,” *American Economic Review: Papers & Proceedings* 100: 495-500, May.

Apgar, William C., and Mark Duda. 2005. *Collateral Damage: The Municipal Impact of Today’s Mortgage Foreclosure Boom*, report prepared for the Homeownership Preservation Foundation, Minneapolis (May 11).

Collins, J. Michael, Cäzilia Loibl, Stephanie Moulton, and Anya Samak. "Effects of Monitoring on Mortgage Delinquency: Evidence from a Randomized Field Study." (2013).

Collins, J. Michael, and Collin O’Rourke. 2011. “Homeownership Education and Counseling: Do We Know What Works?,” Research Institute For Housing America and Mortgage Bankers Association.

Collins, J. Michael, and Maximilian D. Schmeiser. 2010. “Estimating the Effects of Foreclosure Counseling for Troubled Borrowers,” FDIC Center for Financial Research Working Paper No. 2010-06.

Cowan, Spencer M., and Roberto Quercia. 2008. “The Impact of Community-based Foreclosure Prevention Programs,” *Taylor & Francis*, Vol. 23, No. 3, 461-483, May.

Ding, Lei, Roberto Quercia, and Janneke Ratcliffe. 2008. “Post – purchase Counseling and Default Resolutions among Low – and Moderate – Income Borrowers,” *Journal of Real Estate Research* Vol. 30, No. 3.

Hatcher, Desiree, “Foreclosure Alternatives: A Case for Preserving Homeownership,” *Profitwise News and Views*, Chicago Federal Reserve Bank, February 2006.

Hirad, Abdighani, and Peter M. Zorn. 2001. “A little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling.” *Low-Income Homeownership Working Paper Series LIHO-01.4*, Cambridge, MA: Joint Center for Housing Studies, Harvard University.

Immergluck, Daniel, and Geoff Smith. 2006. “The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values,” *Housing Policy Debate* 17 (1): 57–80.

Mayer, Neil S. and Kenneth Temkin. (2013). *Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks® America’s Experience*. Albany, CA: Neil Mayer & Associates.

Mayer, Neil, Peter A. Tatian, Kenneth Temkin, and Charles A. Calhoun. 2010. “National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Effects,” *The Urban Institute*, December.

Moulton, Stephanie. 2012. “Pre-purchase Homebuyer Education and Counseling: Diverse Strategies for Diverse Homebuyers” in Douglas Lamdin, ed. Consumer Knowledge and Financial Decisions: Lifespan Perspectives (International Series on Consumer Science. New York and Heidelberg: Springer), pp. 145-64

Pennington-Cross, Anthony. 2006. “The Value of Foreclosed Property,” *Journal of Real Estate Research* 28 (2): 193–214.

Pollack, Craig Evan, MD, MHS, and Julia Lynch, PHD. 2009 "Health Status of People Undergoing Foreclosure in the Philadelphia Region," *American Journal of Public Health* Vol 99, No. 10, August 20.

Reid, Carolina. 2006. "Preventing Foreclosure: Initiatives to Sustain Homeownership," *Community Investments*, December.

Smith, Marvin M., Daniel Hochberg, and William H. Greene. (2014) *The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills. A special report by the Community Development Studies and Education Department*. Philadelphia, PA: Federal Reserve Bank of Philadelphia.

Temkin, Kenneth M., Neil S. Mayer, Charles A. Calhoun, and Peter A. Tatian, with Taz George. *National Foreclosure Mitigation Counseling Program Evaluation. Final Report, Rounds 3 through 5*. Prepared for NeighborWorks® America. Washington, DC: The Urban Institute.

Union Bank of Switzerland (UBS). 2008. "Severity: Where Does It Come From?" *UBS Mortgage Strategist*, August 12.

UNC Center for Community Capital. 2012. "Massachusetts's Soft Second Loan Program. Regaining the Dream: Case Studies in Sustainable Low-Income Mortgage Lending."

Williams, Laura. 2011. "The Role of Housing Counseling in Reducing Mortgage Delinquency and Foreclosure," issue brief from the Center for Housing Policy.