

# The Effectiveness of Pre-Purchase Homeownership Counseling

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*Organized by the Federal Reserve Bank of Philadelphia*

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# Welcome

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In connection with this session, you can find a variety of additional resources on this topic, available at [www.fedcommunities.org](http://www.fedcommunities.org). We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

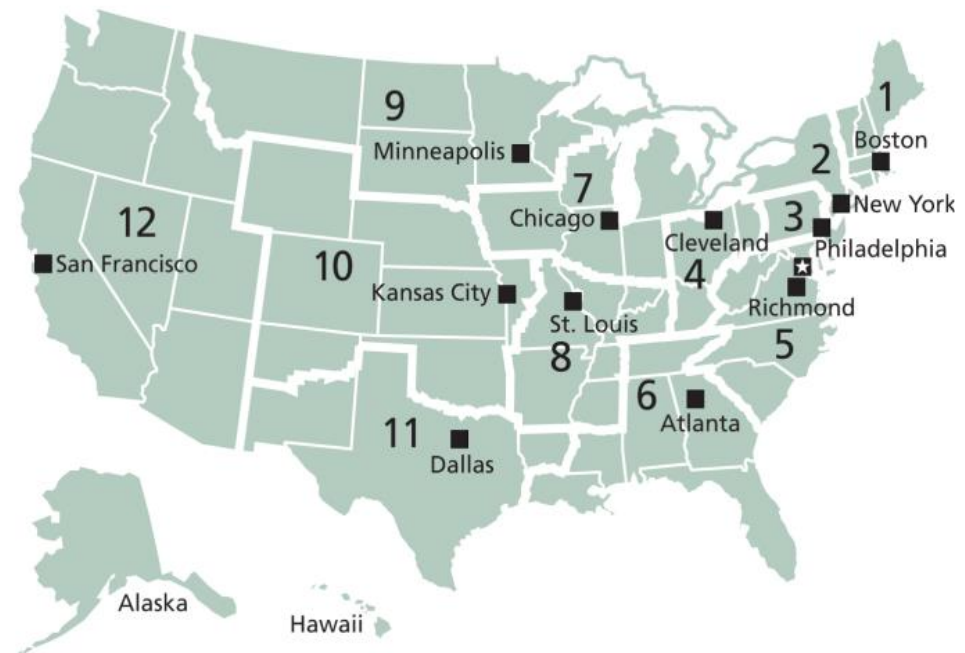
# Legal Notices and Disclaimer

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# Community Development

The Community Development (CD) function within the Federal Reserve System – consisting of individual departments at each of the twelve Federal Reserve Banks as well as at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:

- **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors,
- **Conducting and sharing research** to examine economic challenges facing low- and moderate-income communities and attendant policy implications; and,
- **Identifying emerging issues.**



# Today's Presenters and Agenda

- **Marvin M. Smith**, *Senior Community Development Economic Advisor*, Federal Reserve Bank of Philadelphia
- **Sarah Gerecke**, *Deputy Assistant Secretary for Housing Counseling*, U.S. Department of Housing and Urban Development (HUD)
- **Tammy Orr**, *Director of Business Development*, Citibank
- **Patricia Hasson**, *President and CEO*, Clarifi
- The following will be discussed:
  - Housing counseling
  - Homeownership counseling

# The Effectiveness of Homeownership Counseling

**Marvin M. Smith**

**Senior Community Development Economic Advisor  
Federal Reserve Bank of Philadelphia**



# Research Need

“Like many domains within financial literacy research, homeownership education and counseling have never been rigorously evaluated through a randomized field experiment.”

— J. Michael Collins and Collin O’Rourke  
University of Wisconsin-Madison, 2011

# Study Background

- Study objective
- Experimental design
- Recruitment of participants
  - Eligibility
  - Time period
- Partnerships
  - Clarifi
  - Abt associates



# Study Structure

- Outcome of random assignment
- Tracking of participants
  - Credit scores
  - Credit reports
  - Annual follow-up surveys
- Delivery of services
  - All-day training workshop
  - Monitoring of counseling sessions

# What They Learned

## 1-on-1 Counseling



## 2-Hour Session



Control



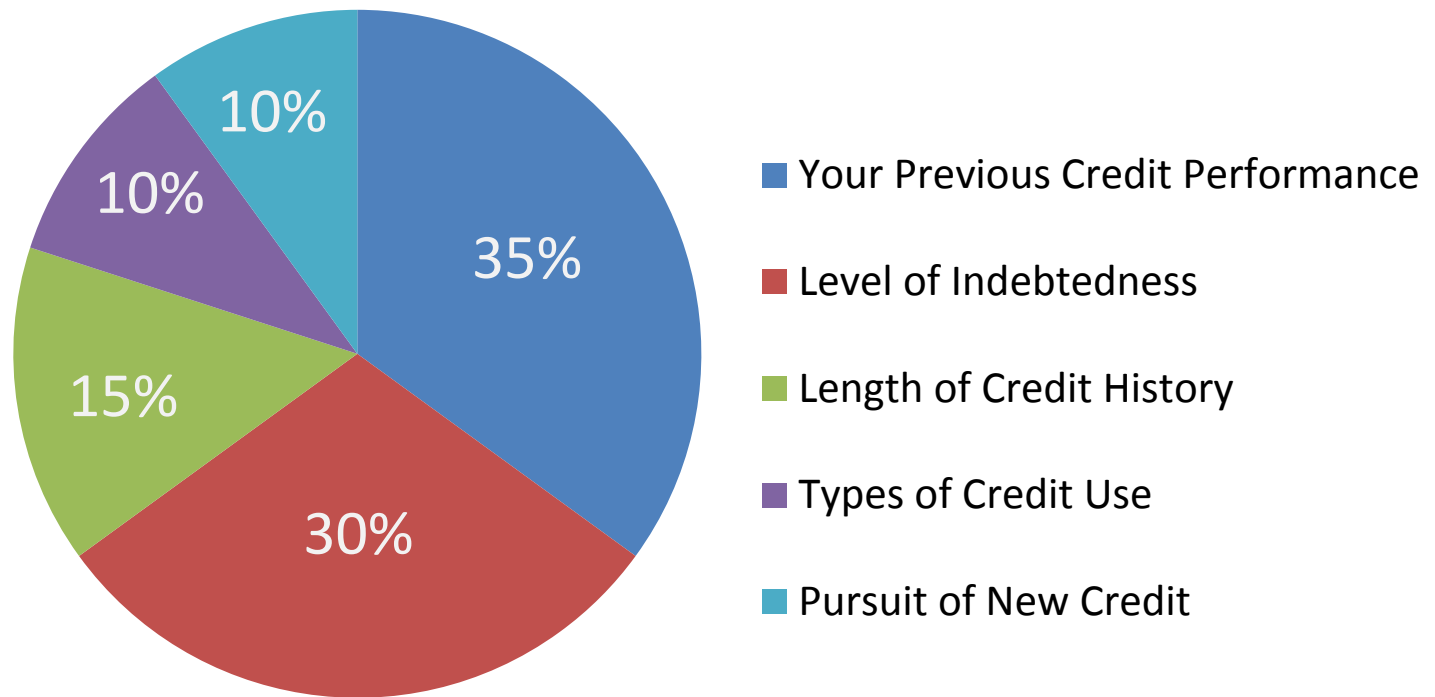
- 2-Hour Session

Treatment



- 2-Hour Session
- 1-on-1 Counseling

# Components of Your Credit Score



Access Your Free Credit Report Annually at [AnnualCreditReport.com](https://AnnualCreditReport.com)

# Focus of Analysis

- Financial behavioral outcomes
  - Total debt
  - Delinquencies in payments (including mortgage payments)
  - Credit scores
  - Homeownership rates
- Methodology
  - Difference-in-differences

# Our Homeowners

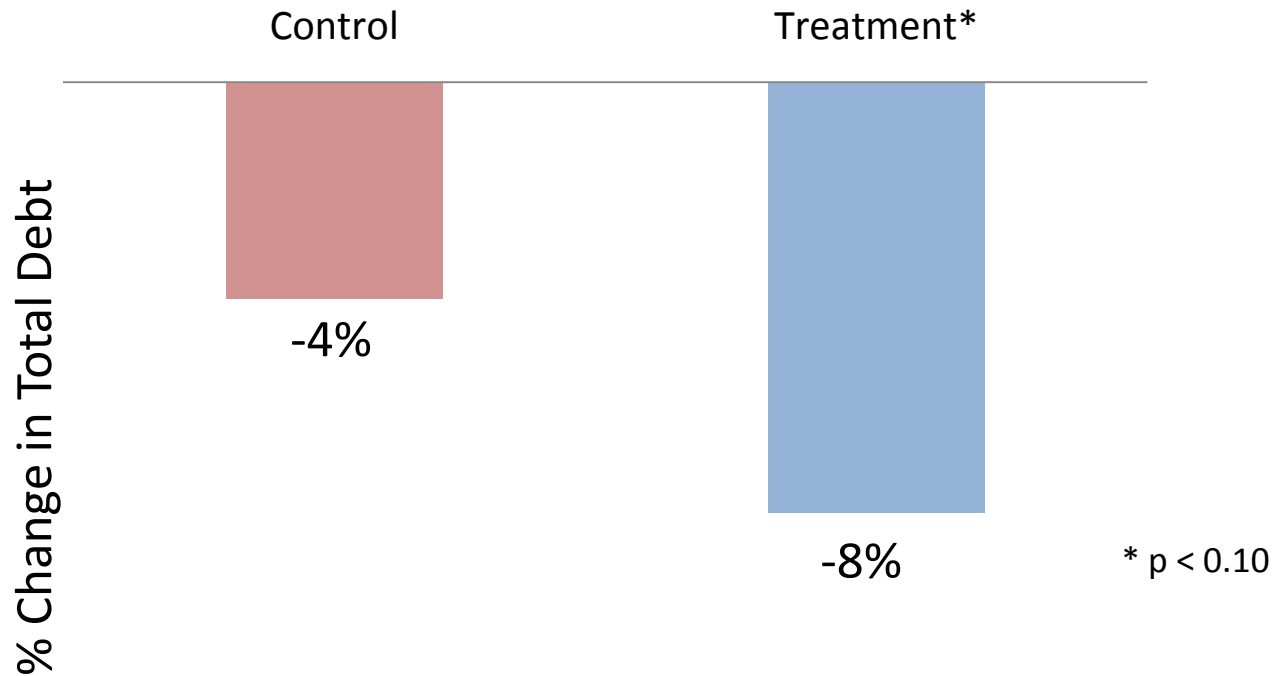


Total homeowners

**61** participants  
in treatment group

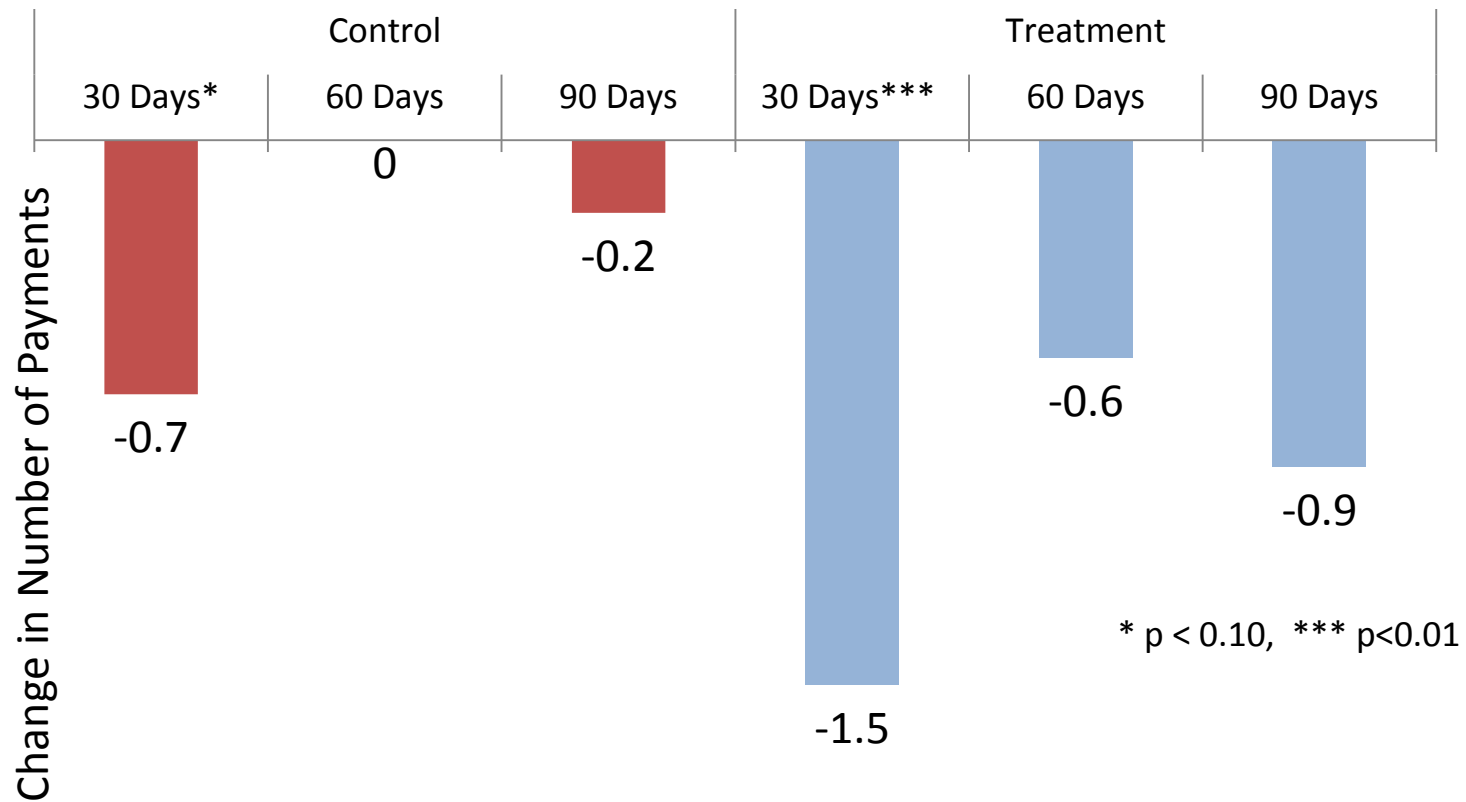
**52** participants  
in control group

# Homeowners: Reduction in Total Debt



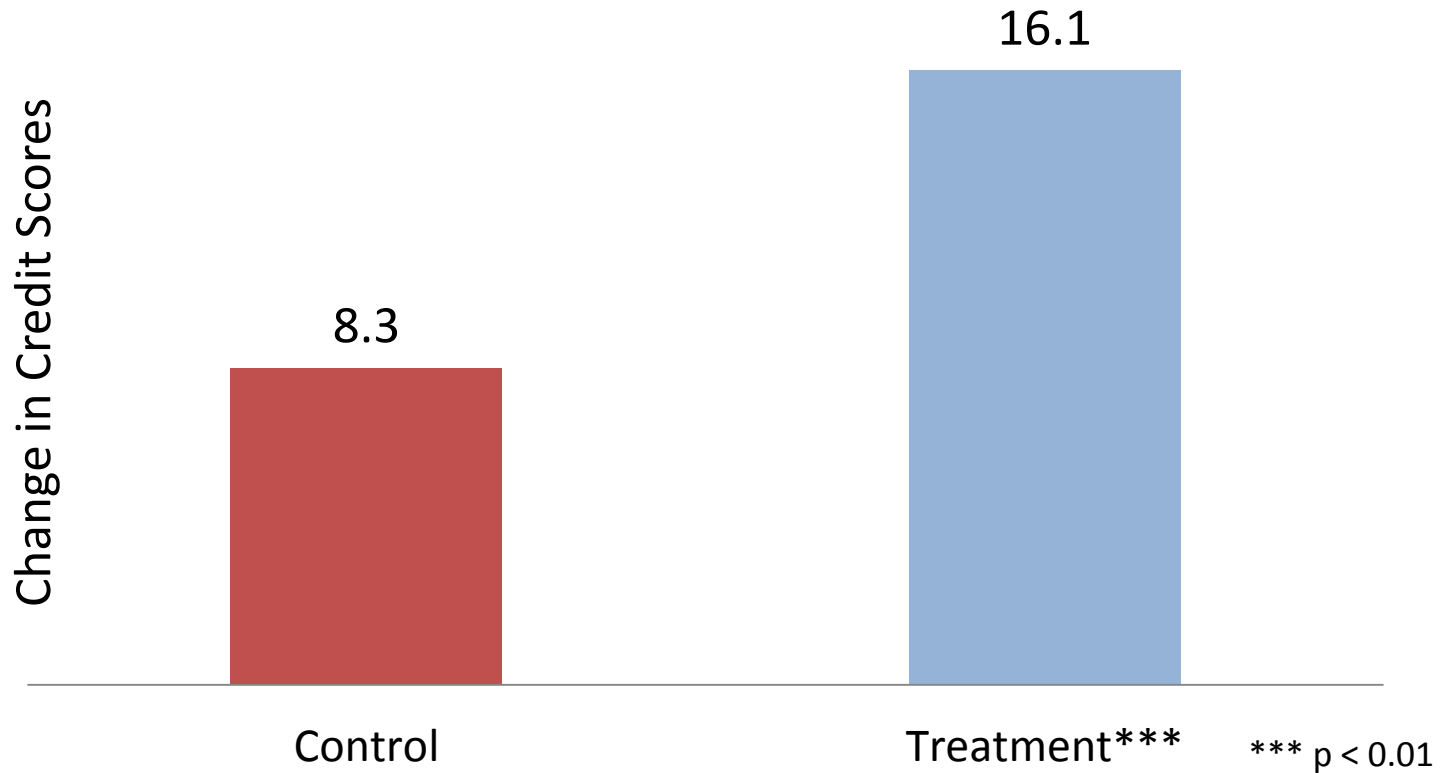
Treatment homeowners witnessed an **8%** reduction in total debt.

# Homeowners: Reduction in Delinquent Payments



Homeowners receiving one-on-one counseling saw a larger reduction in late payments.

# Homeowners: Increase in Credit Scores



Credit scores increased by 16.1 points for those receiving the treatment.



# Key Findings

- Counseling matters even in challenging economic times.
- A little counseling helps, but more counseling helps even more.
  - Policy implication: added benefit/added cost
- Counseling benefits those who later become homeowners and those who do not.
  - May help some consumers realize they are not financially ready to purchase.
- Homeowners pay mortgages on time.

# Office of Housing Counseling

**Sarah Gerecke**

**Deputy Assistant Secretary**

**HUD Headquarters**

**[sarah.s.gerecke@hud.gov](mailto:sarah.s.gerecke@hud.gov)**



# The Office of Housing Counseling

- Our mission is to provide individuals and families with the knowledge they need to obtain, sustain, and improve their housing. We accomplish our mission by supporting a strong national network of HUD-approved housing counseling agencies and counselors.
- We provide oversight to ensure quality counseling and good stewardship of federal funds.
- We provide grants to HUD-approved housing counseling agencies.
- We also provide training and technical assistance.

# Value of Pre-Purchase Counseling for Clients

- Unbiased assistance
- Counseling where, when and how the client wants the information
- Review clients' financial situation
- Address unrealistic client expectations
- Avoid fraud and scams

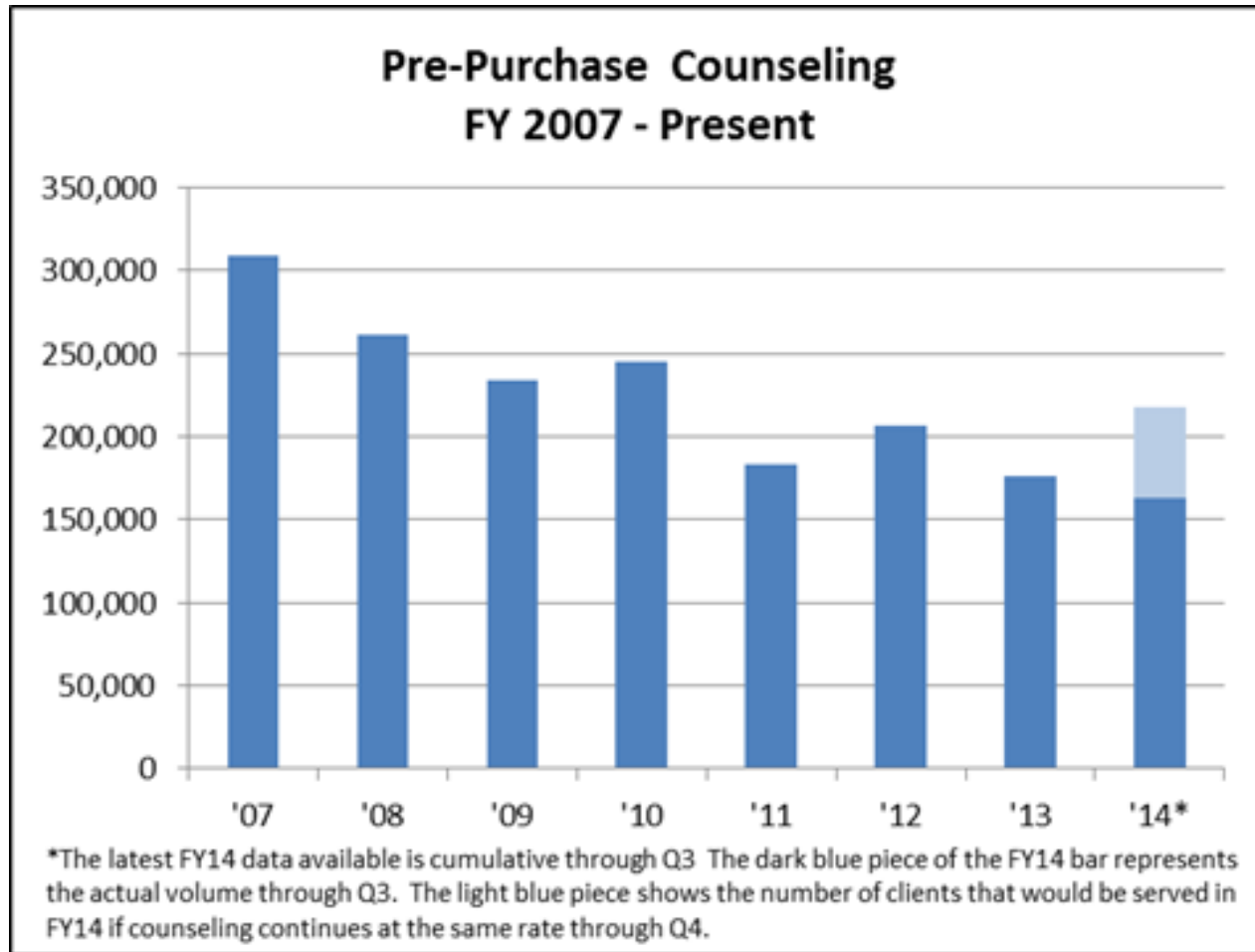
# Value of Pre-Purchase Counseling for Lenders

- Divert unsuitable applicants from homeownership
- Increase consumer confidence
- Improve the borrowers' risk profile
- Link consumers to resources
- Identify and access mortgage solutions
- Confirm adequacy of fair housing and fair lending protocols for lenders

# Statistics

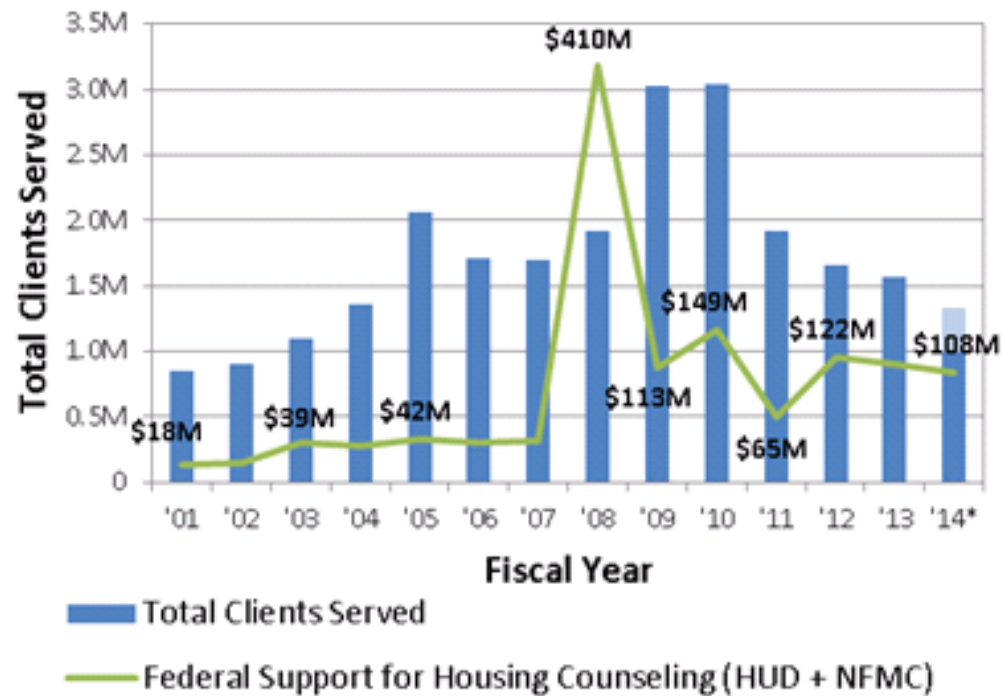
- Approximately 2,400 housing counseling agencies
- Over 12.2 million consumers counseled in total since 2009
- Over 1.2 million consumers received pre-purchase counseling

# Statistics (continued)



# Statistics (continued)

## Trends in Housing Counseling Activity





# Research

- HUD's Pre-Purchase Homeownership Counseling Demonstration
- Randomized experiment
  - Study participants are randomly assigned to one of 3 groups:
    - Remote online pre-purchase education plus telephone counseling
    - In-person group workshop/education plus individual counseling
    - Control group that receives no services

# Homeowners Armed with Knowledge

- Deliberation Period: Can't make forward-looking statements.
- Goals:
  - Increase access to mortgages
  - Expand number of families with improved budgeting skills
  - Improve loan performance

# Housing Counseling, a Lender's Perspective

**Tammy Orr**

**Director of Business Development—Strategic Markets**

**Citibank**

**[tammy.orr@citi.com](mailto:tammy.orr@citi.com)**



# Lender Perspective

Citi is committed to supporting affordable, sustainable homeownership by providing appropriate mortgage products and support to non-profit organizations in our bank trade areas. These non-profit organizations provide pre-purchase and post-purchase homeownership education and counseling programs.

# Citi Initiatives

- Citi Community Development (CCD)
  - Housing Counseling and Education Programs: Dedicated regional and local CCD professionals support community and economic development activities, including housing counseling organizations where Citi is present.
  - Capacity Building for the Housing Counseling Community: Partners with HUD-approved national non-profit organizations to provide training and certification for counselors to ensure professional, consistent service delivery (NeighborWorks America, National Council of La Raza, National Community Reinvestment Coalition).

# Citi Initiatives (continued)

- CCD (continued)
  - Citi Office of Homeownership Preservation: Helps at-risk Citi borrowers find an alternative to foreclosure by working with foreclosure prevention/intervention HUD-approved counselors.
  - Innovation Support: Invests in technology for the housing counseling industry to enhance service delivery.
  - Citi Salutes: Provides financial counseling to Veterans through ClearPoint.

# Citi Initiatives (continued)

- Citi Foundation Grants
  - Financial Capability: Support NeighborWorks America and 31 organizations from across the country who participate in train-the-trainer programs.
  - Housing Counseling and Education: Provide scholarships to NeighborWorksTraining Institutes.
  - Local Grants: Support partner organizations to deliver housing counseling programs.

# Citi Initiatives (continued)

- Citi Businesses Support Counseling
  - Pre-Purchase Counseling: Agreements with a variety of organizations in our bank trade areas
  - HomeRun: Premier affordable lending program requires counseling
  - Post Modification Counseling: Homeownership Preservation Foundation (1308 Implementation)



# Non-Profit Partners

- Citi works with non-profit partners across our bank trade areas to help prepare consumers for home ownership. Non-profit organizations must be HUD approved or meet National Industry Standards for Homeownership Education and Counseling.
- Counseling agreements are in place with many of the organizations that allow us to pay for counseling services.

# Non-Profit Partners (continued)

- These agreements ensure we have access to high-quality counseling services that meet pre-purchase counseling requirements for local programs in which we participate , as well as for our premier affordable lending program, HomeRun.
  - HomeRun requires 8-10 hours of face-to-face or classroom training. A workbook may be used to supplement the training.
  - Borrowers purchasing a 2-unit property must also participate in landlord education.
  - Borrowers are required to execute an authorization form at closing that allows Citi to share relevant account information with the non-profit who provided pre-purchase counseling should the borrower become delinquent. Early intervention is critical in assisting borrowers in distress.

# Risk Performance Data

- Loans originated in 2012-2013 that went 60 days past due performed better with counseling than those without counseling.
- Borrowers with counseling had lower debt to income ratios than borrowers who did not obtain counseling.

# Housing Counselor Perspective

**Patricia Hasson**

**President and CEO**

**Clarifi**

**phasson@clarifi.org**



# Who Clarifi Is

- Regional leader in credit and financial education
- Non-profit 501(c)(3), with 48 years experience
- Formerly Consumer Credit Counseling Service of Delaware Valley
- 22 offices throughout Southeastern Pennsylvania, Southern New Jersey and Northern Delaware
- Multiple accreditations:
  - National Foundation for Credit Counseling, HUD, Pennsylvania Housing Finance Agency, New Jersey Housing and Mortgage Finance Agency , Delaware State Housing Authority, Office of Housing and Community Development, Council on Accreditation

# Value of Participating in the Study

- Industry perspective
- Staff implications
- Economic outlook

# Pre-Purchase Counseling Trends

- Traditional Pre-Purchase
  - Point of sale
  - Community development tool
- Funding Implications
  - Government
  - Financial institutions

# Pre-Purchase Counseling Trends (continued)

- Emerging Pre-Purchase Programs
  - Pre-purchase one-on-one counseling and 6-8 hours of financial education, financial coaching and post counseling education
  - Incentive misalignment
- Funding Implications



# Pre-Purchase Counseling Trends (continued)

- Emerging Innovative Pre-Purchase Programs:
  - Tabor
  - NFCC
    - My Home Roadmap<sup>sm</sup>
  - Bank
  - Government

## Questions?

You have two options to ask questions today:

1. Email us at: [communities@stls.frb.org](mailto:communities@stls.frb.org).
2. Type your question into the chat box of the webinar.

# Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

## Next steps:

- All session materials are available on our web site and in the next few days we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at [communities@stls.frb.org](mailto:communities@stls.frb.org)
- Information about future sessions will be posted on our website along with archived materials from past sessions:  
[www.stlouisfed.org/connectingcommunities/](http://www.stlouisfed.org/connectingcommunities/)

# Related Resources



In connection with this session, you can find a variety of additional resources on this topic , available at **[www.fedcommunities.org](http://www.fedcommunities.org)**.

It provides an array of practical resources to help you in your role as a community development professional, whether you work involves supporting people, places, the practice of community development, or small business development.