The Effectiveness of Pre-Purchase Homeownership Counseling

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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

Treatment

- 2-Hour Session
- 2-Hour Session
- 1-on-1 Counseling
Components of Your Credit Score

- Your Previous Credit Performance: 35%
- Level of Indebtedness: 30%
- Length of Credit History: 15%
- Types of Credit Use: 10%
- Pursuit of New Credit: 10%

Access Your Free Credit Report Annually at 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: 113

61 participants in treatment group

52 participants in control group
Homeowners: Reduction in Total Debt

Treatment homeowners witnessed an 8% reduction in total debt.

Control
-4%

Treatment*
-8%

* p < 0.10
Homeowners: Reduction in Delinquent Payments

<table>
<thead>
<tr>
<th>Change in Number of Payments</th>
<th>Control</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Days*</td>
<td>0</td>
<td>30 Days***</td>
</tr>
<tr>
<td>60 Days</td>
<td>-0.2</td>
<td>60 Days</td>
</tr>
<tr>
<td>90 Days</td>
<td>-0.7</td>
<td>90 Days</td>
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</tbody>
</table>

* p < 0.10, *** p<0.01

Homeowners receiving one-on-one counseling saw a larger reduction in late payments.
Credit scores increased by 16.1 points for those receiving the treatment.
• 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

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HUD Headquarters
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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)

Pre-Purchase Counseling
FY 2007 - Present

*The latest FY14 data available is cumulative through Q3. The dark blue piece of the FY14 bar represents the actual volume through Q3. The light blue piece shows the number of clients that would be served in FY14 if counseling continues at the same rate through Q4.
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

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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)
• 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
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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\textsuperscript{sm}
  – Bank
  – Government
Questions?
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1. Email us at: communities@stls.frb.org.
2. Type your question into the chat box of the webinar.
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

• Information about future sessions will be posted on our website along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/
In connection with this session, you can find a variety of additional resources on this topic, available at 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.