

WRITTEN TESTIMONY OF HUD HOUSING COUNSELING INTERMEDIARIES

Hearing Before the U.S. House Committee on Financial Services

“ Oversight of the Department of Housing and Urban Development (HUD)”

March 1, 2011

We, the undersigned U.S. Department of Housing and Urban Development (HUD) Housing Counseling Intermediaries, want to thank the committee chairman and ranking member for holding this important oversight hearing. We also want to take this opportunity to highlight, and express our support for, two programs in HUD’s fiscal year 2012 budget proposal that have been especially successful in assisting the nation’s struggling homeowners in the past: the National Foreclosure Mitigation Counseling Program (NFMCC, administered by the Neighborhood Reinvestment Corporation, a/k/a NeighborWorks America), and the Housing Counseling Assistance Program (administered by HUD).

On behalf of consumers and homeowners across the nation, along with the thousands of housing counselors that our counseling agencies employ and the millions of families we assisted with comprehensive counseling and education services last year, we respectfully urge the members of this Committee to seek the support of their colleagues for the continued inclusion, in HUD’s annual budget, of funding for both these critically important programs. Specifically, we believe that the following funding levels are appropriate to ensure the continued, successful delivery of services to the nation’s current and prospective homeowners in fiscal year 2012:

- \$88 million for the HUD Housing Counseling Assistance Program (an amount equal to the most recently enacted FY 2010 funding level and the President’s fiscal year 2011 and fiscal year 2012 requests for the program); and
- \$119 million for the National Foreclosure Mitigation Counseling Program (an amount representing the average of the two different funding levels recommended for the program by U.S. House and Senate appropriations leaders during last year’s appropriations process).

HUD-approved housing counseling agencies have been on the front lines of the battle against foreclosure since the foreclosure crisis began. Our organizations are a lifeline to millions of families struggling to keep their home, and in many instances, the only place to which families can turn to navigate a complicated situation. Each of our organizations is committed to running the most efficient operation possible and our counselors are dedicated to helping households navigate the complex process necessary for sustainable homeownership. We educate potential homeowners on the responsibilities of homeownership, the importance of savings, and the need for responsible credit management. Housing counselors also help households avoid loan modification scams and other unscrupulous practices.

The increased demand for housing counseling and foreclosure mitigation services, coupled with shrinking resources, however, is making it harder and harder to serve all the current and potential homeowners in need. It is thus essential that we promote and support the pivotal and proven role housing counselors play in helping families achieve and sustain homeownership and secure housing tenure. Numerous recent academic evaluations confirm the value of pre-purchase homeownership counseling and post-purchase mortgage counseling. Nine independent studies have confirmed the positive impact of housing counseling on loan outcomes over time.¹

To ensure the dream of homeownership is attainable and sustainable and to avoid another foreclosure crisis like the one we are in today, it is essential to have a comprehensive pre-purchase counseling and education strategy in this country. HUD's Housing Counseling Assistance Program provides much needed assistance to home buyers, homeowners and renters. Our member agencies' housing counselors have observed demand, on the part of prospective homebuyers, for information and counseling designed to identify the appropriate loan solutions and independent advice on buying and affordability. They also have observed high demand for non-delinquency, post-purchase education and counseling, as well as renter and homeless counseling for households, including some who are transitioning from foreclosures, and Reverse Mortgage (HECM) Counseling for seniors who have equity in their homes.

The HUD Housing Counseling Program collects extensive production and outcome data to measure the impact of the program. HUD-Approved Housing Counseling Agencies reportedly have accomplished the following since fiscal year 2009:

- Provided more than **4 million** families with individual housing counseling;
- Counseled more than **420,000** pre-purchase households, resulting in **185,000** who purchased homes or are homeownership-ready;
- Worked to prevent mortgage delinquency for **2.6 million** households, with nearly **834,000** avoiding foreclosure (and an **additional 554,000** in counseling at the time of reporting);
- Supported **413,000** with post purchase (non-foreclosure) services, **168,000** of whom refinanced or obtained reverse mortgages; and
- Assisted **more than 590,000** renters and homeless individuals to resolve tenant issues or find shelter.

We note that, if more homebuyers had received housing counseling, they might not have obtained loans they did not understand, at rates which they could not afford, which triggered many defaults in the foreclosure crisis.

¹ Pre-purchase studies include: Hira and Zorn, *A little knowledge is a good thing: empirical evidence of the effectiveness of pre-purchase counseling* (2002); Hartarska and Gonzalez-Vega, *Credit counseling and mortgage termination by low-income households* (2005, 2006); Quercia and Spader, *Does homeownership counseling affect the prepayment and default behavior of affordable mortgage borrowers?* (2008); Agarwal et al., *Do financial counseling mandates improve mortgage choice and performance?* (2009a, 2009b).

Post-purchase studies include: Collins, *Exploring the design of financial counseling for mortgage borrowers in default* (2007); Ding, Quercia and Ratcliffe, *Post-purchase counseling and default resolutions among low- and moderate-income borrowers* (2008); Quercia and Cowan, *Does homeownership counseling affect the prepayment and default behavior of affordable mortgage borrowers?* (2008).

In addition to the above program, the National Foreclosure Mitigation Counseling (NFMC) Program has been the most critical national resource in funding housing counseling for homeowners at risk of foreclosure. As the mortgage crisis has worsened, however, the level of resources committed to such housing counseling has not kept pace with demand.

By way of background, Congress established the NFMC Program in 2008, providing an initial \$180 million appropriation to launch the first round of the program (under the Consolidated Appropriations Act for fiscal year 2008). Congress appropriated an additional \$180 million for the second round of the program, but decreased funding to \$65 million for each of rounds three and four of the program. Despite this substantial reduction in federal funding, the program has proved to be extremely successful in providing assistance to homeowners facing foreclosure. The NFMC Program has also rigorously evaluated its impact. An Urban Institute study on NFMC's effectiveness concluded that the program was successful in both helping homeowners cure an existing foreclosure and reducing the likelihood that counseled homeowners would fall back into foreclosure.²

- During the first two years of the program, counseled homeowners were 70% more likely to get out of foreclosure and avoid a foreclosure completion than if they had not received NFMC counseling.
- On average, NFMC clients who received loan modifications in the first program years reduced their monthly payments by \$555; this is \$267 more in reduction than if they had not received NFMC counseling.
- For clients counseled in 2008, NFMC counseling produced a 45% increase in the relative odds that a post-counseling modification would be sustained through 2009. The sustainability of modifications was greater than for homeowners without counseling because counseled homeowners received larger monthly payment reductions and counseling assistance with financial management.
- For clients counseled in 2008, the odds of making their loans current were 53% higher if they received this form of counseling. Counseling produced payment reductions and financial planning assistance that helped move people from serious delinquency or foreclosure to a sustained cure of their mortgages.

In closing, we want to thank the Committee for its past support of housing counseling and foreclosure mitigation programs that are successful in helping homebuyers and homeowners across the country during this unprecedented housing crisis. On behalf of our dedicated housing counselors and the millions of homeowners we serve each year, we urge Congress to recognize the value of our counseling work and support the key federal programs with a proven track record of success that enable us to help the nation's struggling homeowners.

² Mayer, Neil, Peter A. Tatian, Kenneth Temkin, Charles A. Calhoun. 2010. *National Foreclosure Mitigation Counseling Evaluation: Preliminary Analysis of Program Effects September 2010 Update*. Washington, D.C.: The Urban Institute. Prepared for NeighborWorks® America.

Catholic Charities USA
Citizens' Housing and Planning Association
HomeFree-USA
Homeownership Preservation Foundation
Hope Enterprise Corporation
Housing Partnership Network
Mission of Peace National Corporation
Money Management International
National Coalition for Asian Pacific American Community Development
National Community Reinvestment Coalition
National Council of La Raza
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National Federation of Community Development Credit Unions
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