



National measures of single-family housing starts and home values indicate that the housing market has largely recovered since the Great Recession.

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Pressing Challenges in Housing Finance: Credit Access and Seniors' Mortgage Debt

Nearly a decade after the onset of the housing and financial crises, several indicators show that the housing market is recovering. Housing starts and prices are up and delinquencies and foreclosures are down. Despite these positive signs, important housing finance challenges persist, including tightened access to mortgage credit (especially for traditionally underserved

populations) and an increasing number of older homeowners carrying mortgage debt.¹ These are high-stakes challenges that affect opposite ends of the age spectrum: younger prospective homeowners and older homeowners in or nearing retirement. Overly strict credit standards that exclude credit-worthy borrowers block access to the wealth-building benefits of sustainable

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Message from the Assistant Secretary

This edition of *Evidence Matters* considers challenges and strategies related to housing finance and homeownership. It discusses barriers to buying a home, such as tightened access to mortgage credit, as well as the growing number of older homeowners with mortgage debt. This edition also considers the importance of high-quality, independent homeownership education and counseling. These issues are critical as HUD works to promote and expand sustainable homeownership.

The Office of Policy Development and Research (PD&R) is deeply involved in HUD's work related to housing finance and homeownership. PD&R publishes regular analyses of national, regional, state, metropolitan, and local housing markets as well as the National Housing Scorecard, which is produced in partnership with the Department of the Treasury. Staff in our office monitor and analyze current trends in the health of the housing and mortgage markets such as foreclosures, home values, and credit terms, informing decisions throughout HUD.

Major PD&R studies have examined adjustable-rate mortgages, neighborhood effects in mortgage default risk, and Federal Housing Administration (FHA) single-family default and loss rates. Our office has published several reports illuminating the implementation and effects of housing counseling, including a comprehensive review of the state of the housing counseling industry and qualitative studies on prepurchase and foreclosure counseling. In 2015, PD&R published a report analyzing the implementation of the second round of the Neighborhood Stabilization Program, which was designed to help communities address the wave of home foreclosures after the housing crisis. With the support of a PD&R Research Partnerships grant, recent research led by Stephanie Moulton at Ohio State University examined the use of reverse mortgages to enable senior households to age in place.

PD&R staff are also overseeing an ongoing randomized controlled trial, The First-Time Homebuyer Education and Counseling Demonstration, which studies prepurchase counseling for first-time homebuyers in partnership with three major national lenders. This study promises to provide rigorous evidence on the effects of different types of housing education and counseling for prospective homeowners across a range of incomes, expanding the research base discussed in this edition of *Evidence Matters*. The study has recruited more than 5,800 low-, moderate-, and middle-income participants across 28 large metropolitan areas. Participating homeowners are assigned to a treatment group offered remote homebuyer education and counseling, a treatment group offered in-person education and counseling from a HUD-approved housing counseling agency, or a control group that receives no services. Several reports on the demonstration will follow, beginning with a brief report in summer 2016 that will present early insights on the initial enrollee sample.

In addition to research and data, PD&R has played an active role in developing innovations in housing finance in partnership with FHA and other agencies. PD&R worked with FHA to develop FHA's automated underwriting system, including the TOTAL Mortgage Scorecard. Recently, PD&R staff have been examining recent improvements in credit scoring with the prospect of expanding opportunities for sustainable homeownership. PD&R played an important role in the development of FHA's Small Building Risk Sharing Initiative, which aims to expand lending to owners of small multifamily buildings — a key source of affordable housing in the United States. And more than 20 years ago, PD&R staff were heavily involved in the creation of FHA's Home Equity Conversion Mortgage (HECM) program, which offers reverse mortgages for senior households.

On that note, I want to recognize the tremendous contributions of longtime PD&R housing finance staffer Edward J. Szymanoski, who passed away earlier this year. Ed joined PD&R in 1985, where he served most recently as Associate Deputy Assistant Secretary for Economic Affairs. Ed was a principal architect of FHA's HECM: he developed the HECM actuarial model, proposed core elements of the HECM design, and played a key technical and research role as the HECM demonstration developed into a full-scale program. Ed was an internationally recognized expert in reverse mortgage lending, working with the World Bank on several projects. Over the past few years, Ed played a critical role in helping the HECM program recover from the effects of the housing crisis. We are very grateful for Ed's many contributions to HUD and housing finance, and we miss him dearly.

— Katherine M. O'Regan, *Assistant Secretary for Policy Development and Research*

Editor's Note

Housing finance and sustainable homeownership, the focus of this edition of *Evidence Matters*, face new challenges following the housing bubble and subsequent crisis. Debate continues over how best to expand credit access and affordability while limiting risk for borrowers, lenders, investors, and taxpayers. Throughout this issue, you will see how federal, state, and local policies and programs can promote homeownership opportunities for prospective homebuyers and support homeownership sustainability for both current and future homeowners.

The lead article, "Pressing Challenges in Housing Finance: Credit Access and Seniors' Mortgage Debt," considers two major challenges — tightened access to credit for prospective homeowners and the growing number of older homeowners with mortgage debt — in the context of the mortgage market today and also reviews potential solutions. The Research Spotlight article, "The Evidence on Homeownership Education and Counseling," focuses on current research on homeownership education and counseling (HEC), finding that HEC can substantially improve outcomes for prospective and current homeowners. Finally, the In Practice article, "Increasing Access to Sustainable Mortgages for Low-Income Borrowers," describes how three state and local organizations have sustainably expanded access to credit for prospective homeowners.

We hope this edition of *Evidence Matters* provides a helpful overview of this critical topic. Our next issue will focus on crime, safety, and inclusion. Please provide feedback on any of our issues at www.huduser.gov/forums.

— Rachele Levitt, *Director of Research Utilization Division*

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Highlights

- Even as the housing market recovers, lenders are implementing overly strict credit standards that exclude creditworthy borrowers, particularly members of traditionally underserved populations.
- At the same time, a greater proportion of older homeowners carry mortgage debt, potentially affecting their financial stability and health as they age.
- New credit scoring models, new products and policies that target creditworthy low-income borrowers, manual underwriting, and efforts to allay lenders' concerns could expand credit access sustainably.
- Local programs that provide property tax relief or assist with maintenance costs, along with financing options, can help older homeowners with mortgage debt.

homeownership. At the same time, those in their 50s and 60s are now carrying more mortgage debt than did homeowners in previous generations, likely eroding their financial well-being and their ability to maintain their desired standard of living as they age and enter retirement.

Demographic trends make solving these housing finance challenges

particularly urgent. Minority households, whose growing share of the population will drive much of the future demand for homeownership, are disproportionately shut out of the current lending environment. At the same time, the aging of the baby boom generation will increase the number of older homeowners, who, as we have noted, carry substantial mortgage debt. Both public- and

private-sector innovations have the potential to better bring low-income and minority borrowers into the homeownership market while also assisting older homeowners, all without compromising safety, stability, and consumer protection. Various new ideas have been proposed, such as using alternative credit scoring models, creating targeted mortgage products and programs at the national and local levels, and replacing automated underwriting with manual underwriting, which gives lenders greater latitude in determining a borrower's ability to repay. Refinancing options and reverse mortgages may be appropriate for some older homeowners with mortgage debt, and financial counseling and assistance programs can provide help to those facing financial hardship.

State of the Mortgage Market

By several national measures, the mortgage market appears to have largely stabilized and recovered since the Great Recession. In the third quarter of 2015, single-family housing starts reached their highest level since the



Homeownership remains an important wealth-building opportunity for low-income and minority households, particularly when borrowers have access to safe mortgage products.

end of 2007, and sales of existing homes exceeded 5 million per month on a seasonally adjusted annualized basis for 10 out of the previous 11 months.² The overall value of the U.S. housing market neared \$23 trillion, with household equity of \$13 trillion and household mortgage debt of nearly \$10 trillion.³ Home values rose to their highest level since 2007, due in part to supply constraints as well as demand; the national vacancy rate for owner-occupied homes currently stands at only 1.9 percent.⁴ In the third quarter of 2015, the delinquency rate on mortgages of one- to four-unit residential properties fell to its lowest level since the first quarter of 2007, and the percentage of loans in the foreclosure process was less than half of its 2010 peak of 4.64 percent.⁵ Recent books of mortgage business have exceptionally low default rates by historical standards; many loans currently in the foreclosure process have been there for years, particularly in states with judicial foreclosure processes.

Although these positive trends point to a market recovery, other signs, such as tightening credit and the rising percentage of older homeowners with mortgage debt, indicate ongoing challenges. During the run-up to the housing crash, getting a mortgage was undoubtedly too easy. Now, it is arguably too hard. The Urban Institute Housing Finance Policy Center reports that for purchase loans issued in the past decade, the mean and median borrower FICO scores at origination have increased 42 and 46 points, respectively. As of November 2015, the 10th percentile FICO score for borrowers on purchase loans was 668 compared with the low 600s before the crisis, indicating that the minimum score necessary to obtain a mortgage has risen substantially.⁶ As a result, borrowers who would have qualified for a mortgage in the early 2000s — that is, before the gross loosening of underwriting standards — no longer do. These tighter credit standards have particularly affected minority borrowers; the

Urban Institute reports that lending to African-American borrowers was 50 percent less in 2013 than in 2001 and 38 percent less for Hispanic borrowers during the same period.⁷

Meanwhile, a rising percentage of older homeowners are carrying mortgage debt even as they approach and enter the traditional retirement age. According to the Joint Center for Housing Studies of Harvard University, 40 percent of owners aged 65 and older had mortgages in 2014.⁸ This trend appears likely to continue as the cohort aged 55 through 64 nears and enters retirement. Approximately 46 percent of owners in this age group had mortgages in 2013.⁹ Older homeowners carrying significant mortgage debt may have to postpone retirement or make difficult decisions regarding spending on food, medical care, and other expenses. They also are less able to draw on equity to supplement their income as they age.¹⁰ The causes, consequences, and policy

responses to this trend are discussed in greater detail later in the article.

Is Credit Too Tight?

Because lenders have tightened their credit standards, they are not serving a significant number of low-risk potential borrowers. Borrowers with less-than-pristine credit and documentation are struggling to get mortgages. Researchers at the Urban Institute estimate that if lenders had applied the same credit standards that were used in 2001 — before the loosening of standards associated with the housing crisis — they would have issued an additional 5.2 million mortgages between 2009 and 2014.¹¹ They find that between 2001 and 2014, the number of borrowers with FICO scores above 700 decreased by 7.5 percent, the number with scores between 660 and 700 declined by 30 percent, and the number with scores lower than 660 decreased by 77 percent.¹²

This gap between the projected and actual number of mortgages issued between 2009 and 2014 may be explained in part by declining demand for homeownership. Richard Green, senior advisor on housing finance in HUD's Office of Policy Development and Research and director and chair of the University of Southern California Lusk Center for Real Estate, notes that many of the more than 7 million households who were temporarily locked out of homeownership after losing their homes during the foreclosure crisis may choose to remain renters even after they become eligible to qualify for another loan.¹³ Rachel Drew and Christopher Herbert of the Joint Center for Housing Studies of Harvard University find that borrowers who were underwater are particularly likely to prefer renting over homeownership, but they conclude that otherwise homeownership preferences have not fundamentally shifted in the aftermath of the housing crisis.¹⁴ Green, however, points out that demographics are working against demand for homeownership — people are marrying later, and household growth is strongest among minority groups who traditionally

have had lower homeownership rates. Even after accounting for these demographic trends, Green finds that the homeownership rate is still about 3 percent lower than it should be, suggesting that inadequate credit access remains a critical issue.¹⁵

One factor contributing to tightened credit standards is lenders' reluctance to originate loans sold to the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Lenders say they are worried about the repurchase risk attached to such loans. Also called buybacks or putbacks, these repurchases occur when a GSE finds that a loan it has bought does not meet all of its underwriting requirements, qualifications, or regulations despite the lender's representations and warranties to the contrary. Because GSE

crisis, the Federal Housing Finance Agency (FHFA). FHFA oversees the GSEs and determines whether lenders have complied with seller and servicer requirements. FHFA may require non-compliant lenders to repurchase loans and assume their associated credit risks and costs. Because the kind of loan-level FHFA scrutiny that might result in a repurchase typically begins when a loan becomes delinquent, lenders may be especially reluctant to lend to borrowers with lower credit scores. To avoid the risk of repurchases, lenders may impose overlays — additional criteria, such as stricter debt-to-income ratios, higher minimum credit scores, or additional required documentation — that further restrict credit access. A 2015 Fannie Mae survey of senior mortgage executives found that credit overlays were used by approximately

For purchase loans issued in the past decade, the mean and median borrower FICO scores at origination increased 42 and 46 points, respectively.

purchases make up such a large share of the mortgage market, lenders' fears about the risk of repurchases can significantly affect access to credit. These concerns have emerged in the context of new mortgage origination and disclosure rules established in the wake of the housing crisis. The Consumer Financial Protection Bureau (CFPB), for example, has implemented new rules about the responsibility of lenders to assess borrowers' ability to repay a loan and about the disclosures borrowers receive outlining the terms of mortgage loans.¹⁶ Some lenders may scale back their lending out of concern that even their best-intentioned efforts in underwriting and documentation will not satisfy the requirements of the new regulations.¹⁷

The Housing and Economic Recovery Act of 2008 established a new federal agency in response to the housing

40 percent of lenders who sell loans to GSEs or Ginnie Mae and approximately 60 percent of wholesale lenders. The most common overlays reported in the survey were higher minimum credit scores and additional documentation requirements.¹⁸ At an Urban Institute/Core Logic symposium in 2015, Larry Platt, then a partner at K&L Gates, suggested that overlays were a reasonable response to alternately ambiguous or overly prescriptive legal requirements for lending and what he considered to be disproportionate remedies.¹⁹ HUD's Green disagrees, saying that lenders are unnecessarily concerned about repurchases.²⁰ The Urban Institute reports that although repurchases are more likely for nontraditional loan products, Fannie Mae and Freddie Mac have repurchased less than 0.5 percent of fixed-rate, full documentation, amortizing 30-year loans (the predominant

type in the current lending environment) issued from 1999 through 2014, excluding loans originated from 2006 through 2008, indicating that lenders have little justification for fearing the repurchase of new originations.²¹

Nevertheless, FHFA has taken steps to reassure lenders. Since 2012, the agency has revised its Representations and Warranty Framework — the rules governing a lender’s certification that a loan complies with GSE selling and servicing requirements — to clarify for lenders when a mortgage might be subject to repurchase. FHFA has also provided repurchase relief for loans that meet stated criteria, such as 36 consecutive, on-time monthly payments.²² In 2016, FHFA announced an independent dispute resolution process for repurchase disputes in which a neutral third-party arbitrator intervenes after the initial resolution processes fail. This process promises to prevent disputes from continuing indefinitely. FHFA Director Melvin Watt writes that the independent dispute resolution process, along with the Representation and Warranty Framework, “will increase clarity for lenders and will ultimately increase access to mortgages for credit-worthy borrowers.”²³

Similarly, lenders may restrict Federal Housing Administration (FHA) lending because of concern over federal enforcement of the False Claims Act and associated litigation expenses. Lenders must annually certify that their loans meet all applicable rules and regulations; if they certify a loan that is later found to violate these rules, the lender has violated the False Claims Act. The Urban Institute’s Laurie Goodman argues that the uncertainty and risk of large penalties surrounding federal enforcement has caused lenders to curtail FHA lending.²⁴ In March 2016, FHA clarified that lenders will be held responsible “only for those mistakes that would have altered the decision to approve the loan,” and not for minor mistakes or for fraud committed by a third party. Ed Golding, principal deputy assistant secretary for the Office of Housing and head of FHA,

writes that with these changes, “lenders will be able to more confidently participate in [FHA’s] program and offer access to a wider number of FHA-eligible borrowers.”²⁵

African Americans make up 16 percent and Hispanics 21 percent of the credit invisible population.

Finally, lenders may also impose overlays to avoid the risk associated with the uncertain costs of servicing delinquent loans.²⁶ Delinquent loans generally are more expensive to service than non-delinquent loans. Although lenders can charge higher prices to account for some of those increased costs, a number of other factors are more difficult to anticipate, such as the timeline for foreclosure and property liabilities after a property is conveyed to the lender. Lenders respond to this uncertainty by tightening credit standards to avoid the risk of delinquency, which limits access to credit for borrowers with below-average credit scores.²⁷

Lenders can and should manage their risk, but policymakers want to ensure that lenders do not overestimate their risk of repurchases, legal liability, and borrower default. As discussed above, the fear of repurchases and legal liability is largely unwarranted, and federal regulators have taken steps to clarify how lenders can extend credit while avoiding penalties. Research suggests that lenders may also be overestimating credit risk.²⁸ A larger group of borrowers with lower incomes and credit scores can sustain homeownership than are now being served, particularly with new regulations that eliminate many of the riskiest loan products and characteristics. A study comparing borrowers who received subprime loans with risky features (such as high interest rates,

points, and fees; balloon payments; and negative amortization) with borrowers who had similarly low incomes and credit scores who received loans without risky features finds that the latter group had much lower rates of default, suggesting that lenders could safely manage risk and profitably lend to a broader set of borrowers.²⁹ The success and sustainability of state and local programs targeting lower-income borrowers further supports the case that credit can be extended to these borrowers without undue risk to lenders (see “Increasing Access to Sustainable Mortgages for Low-Income Borrowers,” p. 21).

(Re) Expanding Credit Access

Allaying lenders’ concerns about repurchases and litigation and convincing them to remove overlays could open up credit access to a significant portion of potential borrowers without exposing lenders to substantial credit risk. Additional tools that hold promise for responsibly expanding credit access include new credit scoring models, new products and policies that target creditworthy low-income borrowers, and manual underwriting.

New Credit Scoring Models. Reforms to credit scoring models offer the potential to assess risk in a way that makes credit accessible to more people without exposing lenders to greater losses. Refining how scoring models account for different types of debt, or what they might count as evidence of an individual’s ability to make regular loan payments, may lead to an expanded pool of eligible borrowers. FICO, the country’s most influential credit scorer, has reformed its most recent model, FICO Score 9, to differentiate between medical and other debts. FICO’s proprietary scoring model is not transparent, but the company claims that the model better assesses individuals with limited credit histories, known as “thin files.”³⁰ Experian, Equifax, and TransUnion, the three national credit bureaus, have developed Vantage Score 3.0, which

they claim better scores than those with thin credit files.³¹ This model incorporates rent, utilities, and telephone payment histories that have been reported to a consumer's credit file.³² Landlords are more likely to report missed payments than a history of timely payments, but Experian is now collecting positive rental data.³³ These proposals all promise to incorporate "credit invisibles," those with no credit records, and the "unscorable," those with insufficient or dated credit records.³⁴ People who have not recently used credit or who have used credit only from nontraditional sources (such as payday lenders) do not produce enough collectable information about their spending to generate a credit score under common models.³⁵ By the standards of more traditional credit scoring models, an estimated 26 million consumers were credit invisible in 2010, and an additional 19 million were considered unscorable. Low-income and minority individuals are disproportionately represented in these groups. African Americans make up 16 percent and Hispanics 21 percent of

the credit invisible population and only 13 percent and 17 percent, respectively, of the U.S. population.³⁶

The impact of these more inclusive models, however, is limited by the willingness of lenders to adopt them. Lenders that sell mortgages to Fannie Mae and Freddie Mac are bound by the requirements of the GSEs. Fannie Mae currently accepts only the classic FICO score, but in its "2016 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions," FHFA directed the GSEs to conclude their ongoing "assessment of leveraging alternate or updated credit scores for underwriting, pricing, and investor disclosures and, as appropriate, plan for implementation."³⁷ Fannie Mae does currently allow manual underwriting for borrowers who have a nontraditional credit history, but in those cases other criteria are stricter, such as the imposition of a maximum 36 percent debt-to-income ratio and the exclusion of income from self-employment.³⁸ Sources of information to establish a nontraditional

credit report include rental payments, utilities, insurance payments (medical, auto, life, or renter's insurance, not to include payroll deductions), and payment of certain types of bills.³⁹

While FHFA continues to study alternative credit scoring models, two bills currently before Congress would alter the credit reporting and scoring status quo. The Credit Access and Inclusion Act of 2015 (H.R. 3035) would ensure that positive information about rent and utility payments are reportable to the three national credit bureaus.⁴⁰ The Credit Score Competition Act of 2015 (H.R. 4211) would allow Fannie Mae and Freddie Mac to use any credit scoring model that meets criteria set by FHFA.⁴¹

Targeted Products and Programs. Fannie Mae and Freddie Mac have each recently launched new programs aimed at serving creditworthy low- and moderate-income borrowers. Fannie Mae's HomeReady mortgage responds to shifting demographics "characterized



New loan products such as Fannie Mae's HomeReady Mortgage respond to changing demographics, including the rise of Millennials.

by the rise of Millennials; increased diversity; and a growing elderly population [with] new household growth... driven by traditionally underserved segments.” The program’s underwriting standards allow lenders to consider income from nonborrower household members or boarders. HomeReady requires a downpayment of as little as 3 percent and allows borrowers some flexibility on the source of funds used for downpayment and closing costs, including gifts and grants. Borrowers’ mortgage insurance payments can be reduced once the loan-to-value ratio reaches 90 percent and canceled when it reaches 80 percent. The program also targets low-income, minority, and disaster-impacted areas, placing no income maximum for borrowers purchasing properties in low-income census tracts and allowing eligibility for borrowers earning up to 100 percent of the area median income (AMI) who are buying properties in high-minority and disaster-impacted tracts. Borrowers earning less than 80 percent of AMI are eligible to use the program in any area. Online homeownership education courses are required, and postpurchase support is available to borrowers throughout the life of the

loan.⁴² Freddie Mac offers substantially similar benefits through its Home Possible mortgage program.⁴³

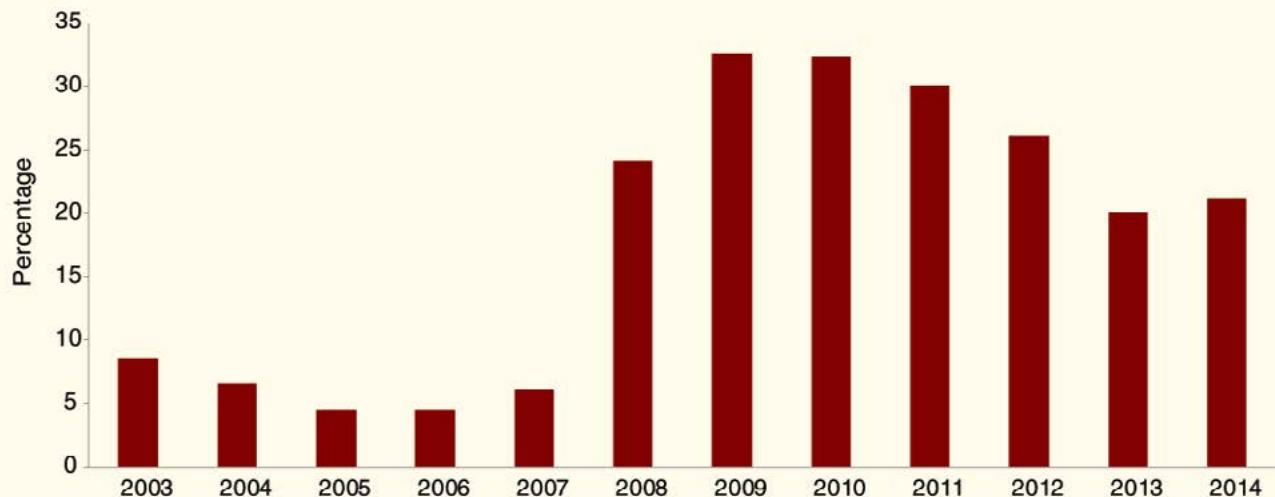
Extended family households that pool resources have more income than traditional underwriting methods reflect. These programs attempt to account for the actual resources available to repay a loan, offering extended households greater access to credit. An analysis by Fannie Mae finds evidence that nonborrower household members indeed contribute to repayment; during the collapse of the housing market, borrowers who lived in extended households and had negative equity were more likely to remain in their homes than were comparable nonextended households.⁴⁴ Demographic trends indicate that extended family households may become more prevalent in the future.

For its part, HUD has stimulated lending through FHA. Historically, FHA has been a countercyclical force, enlarging its share of the market during economic downturns, and that was again the case during and after the Great Recession. According to Moody’s Analytics, FHA activity prevented a second housing

crash as well as the wider economic impacts that would have followed.⁴⁵ From fiscal year 2008 to fiscal year 2015, FHA guaranteed approximately 6.3 million purchase loans and 3.9 million refinance loans.⁴⁶ FHA has been especially important for minority borrowers. In 2014, FHA guaranteed the loans of 43 percent of all African-American borrowers and 44 percent of all Hispanic borrowers.⁴⁷

FHA balances the need to expand access to credit with the need to limit taxpayer risk, so FHA borrowers with credit scores below 580 must compensate with higher downpayments than those with higher credit scores. Any FHA borrower with a credit score lower than 620 and a debt-to-income ratio of more than 43 percent goes through a manual underwriting process to determine whether other compensating factors sufficiently mitigate risk. These policies allow FHA to serve borrowers with low credit scores without taking on excessive risk.⁴⁸ In 2015, FHA guaranteed a larger share of loans issued to borrowers with credit scores below 640 than it did in 2013.⁴⁹ FHA’s efforts to expand credit access were

Figure 1. FHA Share of Purchase Loans



Source: U.S. Department of Housing and Urban Development, Office of Policy Development and Research. “Finance and Investment Data — FHA Mortgage Market Share by Loan Count” (www.huduser.gov/portal/ushmc/fi_FHAShareLnCnt.html). Accessed 11 May 2016.



The share of homeowners at or near retirement age who are carrying mortgage debt has increased significantly in the past two decades.

boosted by the agency's decision to lower its annual mortgage insurance premium, which funds the agency's Mutual Mortgage Insurance Fund, by 50 basis points to 0.85 percent beginning in January 2015. HUD reports that the cut led to increased volume and had a neutral to slightly positive impact on the insurance fund's capital ratio.⁵⁰ The change appears to have benefited first-time homebuyers and minority borrowers. In fiscal year 2015, 82 percent of FHA purchase originations, totaling 614,148 loans, went to first-time homebuyers, and approximately one-third of all FHA originations were to minority borrowers.⁵¹

Manual Underwriting. Manual underwriting offers a potential avenue to expand credit in a responsible manner to borrowers excluded by automated underwriting. Manual underwriting allows a more nuanced assessment of a potential borrower's credit history and possibly a more accurate projection of

their ability and likelihood to repay. For example, for a borrower who struggled to pay off medical debt related to a one-time emergency but paid other debts, rent, and utilities on time, manual underwriting would allow the lender to consider the income of multiple earners in the borrower's household or dig deeper into the borrower's credit history. HUD's Richard Green notes that although automated underwriting was supposed to create more time for lenders to do manual underwriting, very little manual underwriting is currently being done — both because it is time intensive and because manual underwriting lacks the same safe harbors from regulatory scrutiny as some automatically underwritten loans have.⁵² Manual underwriting can be an effective way to responsibly extend credit to borrowers with no or low credit scores and who have sufficient but highly variable income (see "Increasing Access to Sustainable Mortgages for Low-Income Borrowers," p. 21).

Older Homeowners and Mortgage Debt

The housing crisis also had a significant impact on many older homeowners — 1.5 million lost their homes between 2007 and 2011 — and the home equity that many older homeowners consider their most valuable asset remains at risk if home prices decline. In December 2011, AARP reported that among people aged 50 and older, 16 percent had negative equity in their homes and 6 percent were in foreclosure or were 90 or more days delinquent in their mortgage payments.⁵³ The CFPB notes that affected older consumers may have had greater difficulty recovering from the foreclosure crisis than their younger counterparts due to "increased incidences of health problems, cognitive impairment, and difficulties returning to the work force."⁵⁴

A trend that predated the crisis is the increasing percentage of older homeowners with mortgage debt and the increasing amount of that debt (figures

2 and 3).⁵⁵ These percentages show a dramatic increase compared with a generation ago, almost doubling for the 65 to 74 age group and tripling for those older than 75 since 1989.⁵⁶ The factors contributing to this rise are varied, and although the trend is cause for concern, not everyone with mortgage debt is in financial trouble; some portion of the increase could be explained by households simply choosing to tap into their homes' equity — often their biggest asset — in their later years.⁵⁷ The CFPB, however, estimated that in 2014, approximately 4.4 million retired homeowners had mortgage debt other than reverse mortgages or home equity lines of credit, indicating that a substantial number of these homeowners were in debt for reasons other than drawing on the equity in their home.⁵⁸ In addition, older homeowners who take on mortgages to access their equity may be doing so because of financial pressures such as health expenses and a lack of pensions, 401(k) balances, or other sources of retirement income.⁵⁹ Stephanie Moulton of the John Glenn College of Public Affairs at Ohio State University points out that more research is needed to better understand why more older

homeowners have mortgages and why some are drawing down their equity.⁶⁰

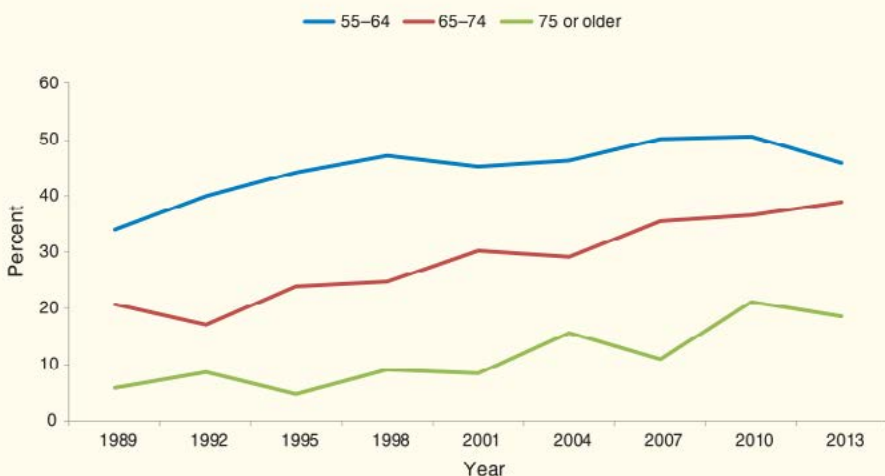
Factors contributing to the rise in older homeowners carrying mortgage debt include the increase in refinancing in the 2000s and trends that delay equity building, such as buying one's first home at a later age and making smaller downpayments.⁶¹ When home values increased in the 2000s, many households took out home equity loans or refinanced as the loans became easier and cheaper to obtain, sometimes taking cash out.⁶² Using data from Freddie Mac, Barry Bosworth and Sarah Anders calculate that average closing costs as a percentage of a 30-year mortgage fell from 2.5 percent in 1985 to 0.6 percent in 2006, which, along with low interest rates, made refinancing more attractive.⁶³ From 1995 to 2007, baby boomers (those born between 1946 and 1964) were most likely to refinance, and older homeowners were more likely than those in other age groups to cash out equity when refinancing. Among those who took out cash, the average amount exceeded \$50,000. The tax deductibility of mortgage debt increased the appeal of using home equity for various

purposes.⁶⁴ Moulton notes that recent retirees may also be less averse to debt than previous generations.⁶⁵

Whether an older homeowner's mortgage debt is cause for concern depends on the individual's circumstances, says Lori Trawinski of the AARP Public Policy Institute. Older homeowners might draw on their home's equity to fund modifications that allow them to age in place, help pay for their children's or grandchildren's education, or pay medical expenses — and as long as they have the resources to make loan payments, they can reasonably carry mortgage debt. But drawing on equity could be a problem if the mortgage debt prevents households from being able to pay for other necessities or if the equity homeowners are tapping is their only resource. Mortgage debt may also be a problem if the older homeowner faces an unforeseen event that leads to a decrease in income, such as job loss or the death of a spouse.⁶⁶ In these cases, mortgage debt can undermine financial security, reduce retirement readiness, strain monthly budgets, limit homeowners' ability to withstand financial shocks such as health emergencies, and ultimately put homeowners in danger of losing their homes.⁶⁷

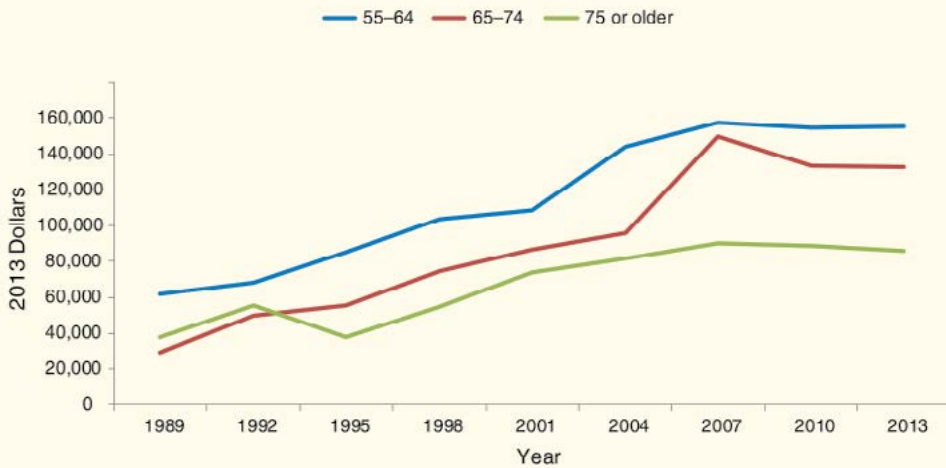
Research indicates that a substantial portion of older homeowners with mortgage debt face financial hardships. The Joint Center for Housing Studies of Harvard University reports that half of owners with a mortgage aged 65 and older pay more than 30 percent of their income for housing, and 23 percent pay more than 50 percent of their income for housing.⁶⁸ On average, owners aged 65 and older with a mortgage pay monthly housing costs approximately three times higher than owners in that age group who have paid off their mortgage.⁶⁹ To cope with debt, and housing costs generally, many older adults make tradeoffs that may compromise their long-term fiscal and physical health, according to the National Council on Aging.⁷⁰ Health problems, and associated costs, may in turn make it more

Figure 2. Percent with Mortgage Debt by Age



Note: Chart shows percent of families with mortgages or home-equity loans by age of the household head. Source: Board of Governors of the Federal Reserve System. 2013. "Survey of Consumer Finances Chartbook."

Figure 3. Mean Value of Mortgage Debt by Age



Note: Chart shows mean value of mortgages or home-equity loans for families with holdings by age of the household head. Source: Board of Governors of the Federal Reserve System. 2013. "Survey of Consumer Finances Chartbook."

difficult for homeowners to pay their housing costs. The current mortgage status of 50-64 year olds suggests that in the absence of interventions, this is a problem that might get worse.

Local programs that provide property tax relief or help with maintenance costs can ease overall housing costs and help older homeowners manage mortgage debt. Many of these programs, such as the U.S. Department of Energy's Weatherization Assistance for Low-Income Persons program, have income eligibility limits.⁷¹ The National Community Reinvestment Coalition's National Neighbors Silver program addresses the financial vulnerability of older adults, including housing counseling and banking access, and the National Council on Aging's Economic Security Initiative includes components to help older adults use home equity wisely. For older homeowners at risk of foreclosure, federal and state initiatives such as the Home Affordable Modification Program, Home Affordable Refinance Program, Emergency Homeowner Loan Program, and the Hardest Hit Fund assisted some older homeowners who might otherwise have lost their homes or faced even greater hardships (see "Programs for Older Homeowners," p. 28).

Older homeowners with mortgage debt may be able to improve their financial situations through financing options. HUD's Richard Green says that as long as mortgage rates remain low, older, still-working homeowners should be encouraged to refinance into 15-year mortgages so that they can hasten repayment and equity building, ideally paying mortgages off before they retire.⁷² For other older homeowners, reverse mortgages, which allow homeowners to access the equity of their home without having to sell or leave it, may be beneficial. HUD's Home Equity Conversion Mortgage (HECM) program, launched in 1989, insures reverse mortgages made by private lenders. HECM borrowers convert their home's equity into income that can help pay for medical costs and other living expenses — even pay off an existing mortgage.⁷³ Moulton notes that about half of HECM borrowers have existing mortgage debt, which they pay off with their reverse mortgage.⁷⁴ Recent reforms to the HECM program have made it safer for both borrowers and taxpayers, says Moulton, particularly limits on the upfront draw of equity and requirements to ensure that borrowers can pay their property taxes, insurance, and other ongoing expenses.⁷⁵ The HECM program currently serves a relatively

small number of older homeowners, but many more households could potentially benefit from the program. Although FHA endorsed fewer than 1 million HECM loans between 1989 and 2015, HECM may be an effective option for some seniors looking to access their home equity.⁷⁶

Housing Finance for the Future

The state of the mortgage market has improved markedly since the housing crisis, but the challenges of responsibly expanding access to credit and helping seniors who carry mortgage debt, among others, persist. With minority populations making up an increasing share of new households, the future of homeownership depends in large part on the ability of the mortgage market to better serve populations that it does not currently reach. Clarity on regulations and possible penalties from the federal agencies, alternate credit scoring models and flexible underwriting, and good-faith efforts by lenders to make sound, profitable loans to underserved populations could responsibly extend credit access and create opportunities for prospective homeowners. Meanwhile, the aging of the baby boom generation at a time when increasing numbers of older homeowners have mortgage debt threatens many seniors' financial well-being and retirement readiness. Access to refinancing programs may offer some relief to the increasing percentage of older homeowners with mortgage debt, protecting their ability to age in their own homes without making tradeoffs that reduce their quality of life. Effectively addressing these housing finance challenges will not only improve individual households' financial health and wealth-building opportunities but also will strengthen the housing market overall. **EM**

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The Evidence on Homeownership Education and Counseling

Homeownership is complicated. Choosing and maintaining a home, as well as deciding whether to buy a home at all, can be difficult, and many people struggle to understand their choices. It is difficult to learn how to buy a home from experience: most people only buy a few homes, at most, over the course of their lifetimes.

People’s “mental accounting” can lead them to inaccurately estimate costs, such as by focusing only on the affordability of monthly housing expenses without considering other costs such as points or fees.¹ Customers are often confused by mortgage terms, such as the difference between contract interest rates and annual percentage rates (which include the actual interest rate as well as fees, points, and other charges for the loan).² In general, people systematically overestimate their ability to stick to a financial plan.³ These challenges can be particularly keen for low- and moderate-income households. Nearly one-third of low- and moderate-income homebuyers underestimate their household debt by \$5,000 or more, and consumers who underestimate their mortgage debt tend to take out mortgages that are large relative to their income.⁴

Many prospective homebuyers do not shop around for home financing, even though having access to more options might lower their costs. The Consumer Financial Protection Bureau’s survey of 2013 mortgage borrowers found that approximately one-half of borrowers seriously considered only one lender or broker before deciding where to apply and that 77 percent of borrowers

- Prospective homebuyers often do not know or understand their financing options, and homeowners can encounter unexpected costs, struggle to maintain their initial payment plans, and encounter foreclosure rescue scams.
- Research demonstrates that homeownership education and counseling, both for those considering a home purchase and for those who are already homeowners, can provide timely, powerful support as people assess their options and make decisions.
- People benefit most from homeownership education and counseling when the support is appropriate for their needs, easily accessible, and offered early in the homebuying process.

submitted an application to only one lender or broker.⁵ Borrowers who were less familiar with the mortgage process were also less likely to shop around for mortgages and were much more likely to rely on information from real estate agents, friends, relatives, or coworkers when shopping.⁶ Before the mortgage

their debts or negotiate workout options with their mortgage servicers.¹²

Struggling homeowners may also fall victim to foreclosure rescue schemes, which promise mortgage modifications that are fraudulent and trick homeowners out of their mortgage payments.¹³

Nearly one-third of low- and moderate-income homebuyers underestimate their household debt by \$5,000 or more.

and credit crisis, 30 to 50 percent of subprime borrowers could have qualified for a prime loan instead,⁷ and many subprime borrowers who had adjustable-rate loans did not know that their initial fixed rate applied for only a limited period of time or that they were being charged substantial fees.⁸ According to Richard Green, the mortgage crisis could have been prevented if borrowers had more information on the costs and risks of their loans.⁹

Once homeowners buy a home, they can encounter unexpected costs and struggle to maintain their initial payment plans.¹⁰ Nearly half of all first-time, low-income homeowners experience significant unexpected home repairs.¹¹ Homeowners who fall into delinquency may be overwhelmed by their situation and struggle to manage

These schemes have become more complex and prevalent in the wake of the housing market crash.¹⁴ These scams not only defraud homeowners of thousands of dollars¹⁵ but also waste homeowners’ time that could have been spent on real counseling and can even lead homeowners into foreclosure.¹⁶

Homeownership education and counseling (HEC) can address these challenges. HEC participants working with a HUD-approved housing counseling agency receive independent, expert, and unbiased advice from a counselor whose ultimate duty is to the consumer. People can better understand their options, avoid scams, and make more informed decisions. HEC can complement new consumer protections for homebuyers — and some of these rules require

that certain prospective homebuyers receive HEC.

HEC, in turn, can promote sustainable homeownership at each stage of the process by helping people distinguish between financing options, stay current on their payments, or avoid foreclosure if they fall delinquent on their payments. A growing body of evidence — primarily considering HUD-regulated programs for low- and moderate-income households — on large-scale HEC programs, bolstered by evidence on individual agencies, demonstrates that HEC can substantially help participants in many ways.

What Is Homeownership Education and Counseling?

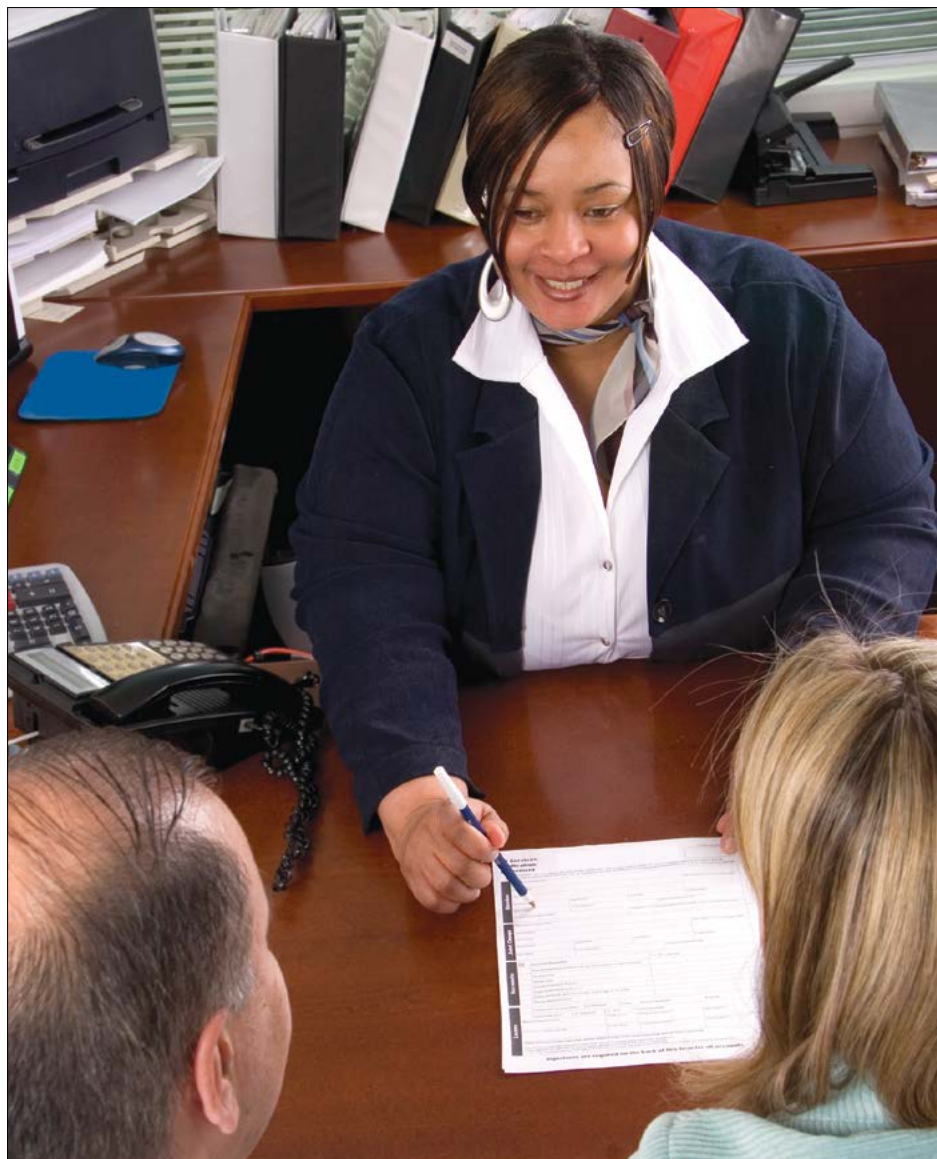
Homeownership education and counseling includes many types of support that vary in timing, method of delivery, intensity, and focus.¹⁷ For support to qualify as counseling rather than education, it must be one on one and customized to participants' individual needs.¹⁸ In practice, the line between education and counseling can blur, especially when support is offered by phone or on the Internet.¹⁹ Many programs include both education (for instance, group classes) and counseling.

HEC can help people who are considering a home purchase (“prepurchase”) and after they become homeowners (“postpurchase”). Prepurchase education and counseling covers topics such as money management; selecting a home; options for financing; and avoiding scams, discrimination, and inappropriate loans.²⁰ According to HUD’s 2012 study of prepurchase counseling, nearly all (90%) of the participants in prepurchase HEC learn about homeownership readiness, budgeting and credit, home financing, and shopping for a home, and a smaller but still substantial proportion learn about home maintenance (63%) or resolving or preventing mortgage delinquency (47%).²¹ Postpurchase HEC most often addresses mortgage delinquency and default to help families stay current on their loans and avoid

foreclosure. HUD’s 2012 study of foreclosure counseling, for instance, found that counselors helped participants prepare household budgets and loss mitigation packets, explained the range of options to retain their homes, and sometimes intervened directly with a lender on the participant’s behalf.²² Postpurchase HEC can also cover home repair, postpurchase budgeting, and decisions about refinancing and reverse mortgages.

The Housing and Urban Development Act of 1968 first enabled HUD to authorize public and private organizations to provide housing counseling.²³ Congress believed that counseling was an essential complement to new mortgage insurance programs for lower-income

families. The act’s committee report comments, “While many families who would be eligible for mortgage insurance. . . have strong aspirations to become homeowners, their experience in handling large financial responsibilities may be meager. Through counseling, these families can be helped to use their resources efficiently in meeting homeownership responsibilities.”²⁴ In the short term, significant default rates among households participating in the Section 235 program — created in the 1968 act as HUD’s first large low-income homeownership program — motivated Congress to institutionalize HEC within HUD.²⁵ HUD began certifying HEC in 1971 and began directly funding it in 1974.²⁶ Since then, funding for HEC



The Consumer Financial Protection Bureau reports that many first-time homebuyers unfamiliar with the mortgage process do not shop around when applying for financing.

has steadily increased, and the program has broadened in scope.²⁷

In the late 1980s and early 1990s, the focus of HEC shifted from home retention to prepurchase counseling as lenders tried to minimize the risks of lending to lower-income prospective homebuyers.²⁸ In 2007, at the start of the housing crisis, Congress authorized hundreds of millions of dollars for HEC through the new National Foreclosure Mitigation Counseling (NFMC) program. NFMC operated alongside an array of related programs such as the Neighborhood Stabilization Program, the Making Home Affordable program, and the Emergency Homeowner Loan Program; most of these programs required or encouraged the use of HUD-approved housing counseling agencies.

In 2010, Congress created a centralized Office of Housing Counseling within HUD to oversee the Housing Counseling Program's agencies, counselors, and counseling services. The Office of Housing Counseling certifies counseling agencies and has proposed regulations to certify individual counselors, as the 2010 legislation requires; only HUD-approved agencies can apply for Housing Counseling Program grants. HUD standards address the content and process of HEC, outline requirements for the training and expertise of counselors, and prohibit steering and conflicts of interest.²⁹

The number of people participating in homeownership education and counseling has multiplied over the past 20 years. In 1994, 244,000 individuals received one-on-one counseling through HUD-approved counseling agencies.³⁰ In fiscal year 2015, HUD-approved agencies provided education or counseling to 1,336,920 households: 363,113 received group education, 973,807 received counseling, and 100,872 received both.³¹ HUD-certified HEC disproportionately serves minorities and low- and moderate-income households. For fiscal year 2015, the most common topics for education were prepurchase homebuyer education (64%) and financial

literacy, including home affordability, budgeting, and understanding the use of credit (17%).³² Nearly half of HUD-certified housing counseling covered mortgage delinquency or default resolution or prevention (46%); other common topics included prepurchase or homebuying counseling (24%), rental topics (12%), and reverse mortgages (10%).

About 2,000 HEC agencies are part of HUD's network as of 2016. The most recent comprehensive review of the housing counseling industry, published by HUD in 2008, found that HUD-certified nonprofit organizations were "by far" the most common HEC providers; others include state and local governments as well as entities not eligible for HUD approval, such as lenders, real estate agents, and mortgage companies.³³ HUD's 2008 review also found that most agencies were relatively small, with 15 or fewer employees and serving fewer than 500 clients per year.³⁴ Housing counseling agencies use a wide array of curricula,³⁵ and several other sets of HEC standards complement HUD's. The voluntary and self-certified National Industry Standards for Homeownership Education and Counseling, for example, have been widely adopted. These standards impose a code of ethics; describe minimum operating standards, such as training and certification expectations for homeownership counselors; and create minimum content standards, such as key topics for homeownership education.³⁶

Do HEC Programs Work, and How So?

Homebuyer education and counseling can provide timely, powerful support for prospective and current homeowners as they assess their options and make decisions. The evidence demonstrates that HEC can help participants expand their housing searches and enjoy more options; avoid risky purchases and mortgages; lower their housing costs; improve their credit scores; save more and keep more residual income;

and avoid or resolve delinquency, default, and foreclosure. HEC could also have a positive impact at a larger scale, such as by helping stabilize the neighborhoods where HEC participants live.³⁷

HEC programs, which address complex issues over the short- and long-term, pose challenges for evaluation. Programs differ in many ways, from curriculum to target population. Obtaining long-term data on participants' mortgage payment history and delinquency can prove difficult.³⁸ Recent research on HEC, however, has accounted for these challenges and has demonstrated how and in which contexts HEC can help prospective and struggling homebuyers.

The new research fills in gaps in the base of evidence. In 2010, Collins and O'Rourke commented that HEC programs do not share a common theoretical framework, so evaluators often had considered the actual interventions as a "black box."³⁹ Timing also matters: the mortgage market has changed substantially since the financial crash, so precrash findings might be less relevant in the context of today's market. In particular, many early studies of HEC programs did not include a randomized control group and instead compared HEC participants' outcomes with those of similar borrowers who did not receive HEC. Comparing participants in this way assumes that the two groups of borrowers share key characteristics that affect their outcomes (such as credit, income, and loan amount) save one important distinction: participation in the HEC program. In the context of HEC, however, this assumption might be flawed if studies do not account for motivation; in other words, people motivated to participate in HEC might also be more likely to experience successful homeownership and pay their mortgages on time.⁴⁰ Indeed, HUD's qualitative study of homeowners seeking help with foreclosure mitigation found that a relatively high proportion (82%) of those studied had tried to contact their servicer before entering counseling, suggesting that people who seek

counseling might be more proactive than other homeowners.⁴¹

Prepurchase HEC. A number of prepurchase HEC programs appear to have helped borrowers avoid delinquency or defaults. In particular, a large-scale 2013 study considered nearly 75,000 borrowers: 18,258 participants in HEC programs provided by NeighborWorks America’s national network of agencies matched with 56,298 borrowers using Experian credit reports and other records. Most of the participants studied were first-time homebuyers, relatively young, and earning modest incomes. The study matched participants with similar borrowers who did not receive HEC using a more rigorous method that included extensive data on borrowers’ backgrounds, such as their Experian credit files. This study is also important because it included a substantial number of nonprofits from across the nation, not just a few agencies, and the participants all received HEC following a consistent framework, the NeighborWorks standards. According to the study, NeighborWorks participants — both first-time homebuyers and repeat buyers — were one-third less likely to become 90 or more days delinquent during the 2 years after they obtained their loans.⁴²

A rigorous⁴³ but smaller-scale 2010 study suggests that extensive, continuous pre- and postpurchase HEC by an organization with a stake in participants’ performance can substantially reduce default rates. The Indianapolis Neighborhood Housing Partnership, a HUD-approved housing counseling agency, provided low- and moderate-income households with a three-hour prepurchase class on money management, one-on-one counseling for up to two years, and a capstone eight-hour class on homebuying. Participants graduated once they met lender underwriting requirements and qualified for a mortgage. Compared with similar borrowers, graduates referred for private mortgages were 5.8 percentage points less likely to default within 18 months, and graduates who qualified

for loans with the partnership based on nonpublic, “soft” information gathered during counseling were 10.7 percentage points less likely to default. Although the study considered loans originated from 2005 to 2007, the study’s data on defaults continued through 2008, well after the beginning of the housing crash.⁴⁴

Prepurchase HEC might be particularly powerful when combined with effective financing programs.

Homebuyers who participate in HEC could also become more creditworthy. To test this idea, the Federal Reserve Bank of Philadelphia conducted a five-year randomized experiment comparing homebuyers who received a single two-hour prepurchase workshop with those who received the workshop along with one-on-one purchase counseling by a HUD-approved housing counseling agency.⁴⁵ Although the experiment had methodological limitations,⁴⁶ it suggests that prepurchase one-on-one counseling can help participants — both those who subsequently buy a home and those who don’t — reduce delinquent payments on debts to a greater degree than they would have otherwise.⁴⁷

Prepurchase HEC might be particularly powerful when combined with effective financing programs. Families who participated between 1990 and 2010 in Massachusetts’ SoftSecond mortgage program, which helps first-time homebuyers with lower incomes finance downpayments, experienced lower delinquency rates than subprime or even prime borrowers in the state over the same period. The combination of strong underwriting and HEC requirements appear responsible for these results; SoftSecond participants were required to take

a two-day prepurchase education class and a postpurchase workshop, and counseling agencies proactively reached out to borrowers who became delinquent.⁴⁸

HEC can help participants better understand their options to resolve default and avoid foreclosure, such as loan modifications or declaring bankruptcy.⁴⁹ Tennessee’s downpayment assistance program for first-time homebuyers earning low and moderate incomes required participants to receive education on both prepurchase and postpurchase topics from a HUD-certified agency, mostly in a classroom setting.⁵⁰ Tennessee did not enforce the education requirement for the first half of 2002, creating a natural experiment to compare participants for that year who were required to complete the education component with those who were not.⁵¹ The participants who received homebuyer education were much less likely (10.7%) to have experienced foreclosure by 2009 than the comparison group (17.6%), and the amount of money the households saved by avoiding foreclosure far exceeded the cost of the education. Those receiving education were not less likely to default, however, suggesting that the primary effect of homebuyer education was helping them address financial trouble.⁵²

Requiring prepurchase counseling could also encourage borrowers to wait for the right time to buy or choose lower-risk loans. HUD’s 2012 study on prepurchase HEC found that participants who did not buy a home received as much counseling as those who did, suggesting that for some clients, waiting to buy is a successful outcome.⁵³ A 2006 to 2007 legislative pilot in Chicago required that mortgage applicants who sought risky loans or had low credit scores receive counseling concerning common borrowing pitfalls from a HUD-certified agency. The state of Illinois had struggled to directly regulate issuers, who would introduce new types of risky products to avoid regulatory restrictions. The pilot was intended to counteract predatory lending through a different strategy — by educating

borrowers rather than targeting issuers. Because the legislative pilot's requirements applied only to certain ZIP codes, researchers were able to obtain solid evidence on the requirement's effect: applicants chose less risky loans to avoid the counseling requirement.⁵⁴

Postpurchase HEC. Postpurchase HEC can help borrowers avoid delinquencies and defaults, address issues before entering foreclosure, and lower their monthly costs. Recent studies have demonstrated several of these benefits on a large scale.

The 2014 study of the National Foreclosure Mitigation Counseling (NFMC) program analyzed a sample of approximately 240,000 loans from 2009 to 2012 and found that participants were nearly three times more

likely than nonparticipants to get a loan modification. In addition, among borrowers who received a modification, NFMC participants were 70 percent less likely to redefault.⁵⁵ The study also estimated that NFMC helped homeowners save \$518 million a year — an average of almost \$5,000 per client — by making both better modifications and new modifications, in addition to the savings homeowners would have achieved without a counselor's help. NFMC funded individualized counseling with two steps: first, the counselor developed a budget and written action plan for the client; second, the counselor verified the client's budget and worked to achieve that plan. Although the study matched participants to homeowners with similar characteristics, it addressed some of the possible selection

bias by including information on how both groups tried to fix their problems before participants received counseling.⁵⁶

Similarly, a 2013 study of borrowers in the period following the housing market crash found that those who received telephone counseling from a large national counseling network had better outcomes than did nonparticipants. Borrowers who received counseling were more likely to receive a loan modification, and those borrowers who received a modification were less likely to become delinquent; participants in general were less likely to experience foreclosure. Participants were also more likely to improve their status after their loans became seriously delinquent regardless of the amount of counseling they received. It is important to note that



Photo courtesy of HomeSource east tennessee

Potential homebuyers participate in a homebuyer education class conducted by HomeSource east tennessee, a NeighborWorks America organization.



Prepurchase counseling can help homebuyers make informed choices.

before receiving counseling, participants were more likely to be delinquent on their loans, which might have made them more likely to seek counseling. The study matched participants with nonparticipants but used several statistical methods to address unobservable differences between the two groups.⁵⁷

A 2015 randomized experiment demonstrated that education combined with postpurchase coaching could help borrowers avoid defaults at a low cost. About 400 first-time homebuyers earning low and moderate incomes participated in the Ohio Housing Finance Agency's MyMoneyPath program in 2011 and 2012. Both the treatment and control group completed an online financial assessment before buying a home, covering topics such as budgeting and borrowing, and received a concise report of their financial health. Participating homebuyers then completed an online, interactive financial goals planning module, followed by postpurchase quarterly coaching by email and phone to monitor participants' progress and help them turn those goals into actionable steps. Compared with a randomized control group, participants were 20 percent less likely to default during their first year of homeownership.

The program, which cost only \$100 to \$300 per participant, appeared to work by improving participants' financial attentiveness and decisionmaking, which helped them reduce their debt and increase their savings.⁵⁸

Factors Affecting HEC Outcomes.

Context matters for HEC. In particular, the point at which consumers receive either prepurchase or postpurchase HEC appears to make a significant difference.⁵⁹ In the prepurchase context, earlier HEC can inform more stages of a consumer's decisionmaking process. The National Industry Standards for Homeownership Education and Counseling, for instance, reflect the housing industry's consensus that clients who receive earlier prepurchase HEC have better outcomes.⁶⁰ And as the Bipartisan Policy Center comments, housing counseling's "most important contribution may be helping prospective buyers understand when is not the right time for them to purchase a home."⁶¹

Some prepurchase participants have already signed a purchase agreement before receiving counseling.⁶² Borrowers who received prepurchase counseling during the Chicago experiment, which required counseling for low-credit

borrowers or high-risk loans, did not appear more likely to walk away from potentially troublesome, risky mortgages, perhaps because the counseling occurred relatively late in their homebuying process.⁶³ Early information appears to make a difference; in states that require borrowers to receive enhanced warnings or counseling about foreclosures before signing for riskier mortgages, borrowers are more likely to reject lenders' high-cost mortgage refinancing offers.⁶⁴ More evidence could illuminate how prepurchase HEC affects participants' decisions about mortgage products. The NeighborWorks study, for instance, does not address this issue, both because of data limitations and because some people might be referred to counseling after seeking certain mortgage products.⁶⁵

Earlier HEC could also help homeowners avoid foreclosure. Evidence from a 2010 study of postpurchase counseling suggests that borrowers who receive counseling in the early stages of default may be much more likely to receive a loan modification or keep their homes compared with those who received counseling only after were already seriously delinquent or in foreclosure. This study considered national data on homeowners who called a mortgage foreclosure hotline from 2007 to 2009, in the midst of the housing crisis. The authors used multiple methods to account for selection bias, including considering the timing of targeted outreach events by the agency sponsoring the hotline. These findings suggest that counseling leads borrowers to prioritize mortgage payments, which also suggests that borrowers with income might benefit more from earlier HEC than would those without.⁶⁶

Social networks can affect people's participation in HEC. According to a 2015 qualitative study, working-class homeowners are more likely than middle-class homeowners to share information about the loan modification process with their social networks; middle-class homeowners are more likely to be embarrassed by their struggles with

their mortgages.⁶⁷ Similarly, a 2015 study of a New York City counseling network found that homeowners were much less likely to seek counseling services if they lived in neighborhoods with higher median home prices or lower housing burdens, even accounting for lower rates of foreclosure — perhaps because homeowners in these neighborhoods, which had relatively strong housing markets, underestimated the risk of foreclosure.⁶⁸

Geography can play a role, too. The 2015 New York City study also found that homeowners who lived farther from counseling services were more likely to withdraw from counseling, although they did not necessarily have worse outcomes.⁶⁹ In Ohio, with all other factors being equal, homeowners who initially registered for homeowner assistance were slightly more likely to finish their applications when they lived closer to the counseling agency that completed intake for assistance.⁷⁰

On the other hand, the amount of counseling participants receive does not appear to affect their outcomes. A 2013 national study of telephone foreclosure mitigation counseling after the housing crash found that the amount of counseling homeowners received did not appear to matter; in fact, borrowers who received any amount of counseling appeared more likely to improve their delinquency status and avoid foreclosure. This finding might be because counselors are able to determine the right amount of time an individual client needs, or because the effectiveness of a given counseling program is more closely related to the qualities of the person seeking counseling rather than the length of time he or she receives it.⁷¹ The 2015 New York City study suggested that participants who remained clients for longer periods experienced better outcomes, but the amount of time they received counseling did not matter.⁷² In one study that suggested that additional hours of counseling improved outcomes, participants also received housing assistance loans, and

more motivated participants might have selected into receiving more hours.⁷³

Also, although face-to-face counseling is generally assumed to be more effective than other methods of HEC, the evidence does not support that assertion.⁷⁴ As this article discusses, Internet-based, telephone, and face-to-face HEC programs all appear to be effective in various situations. HUD's 2012 qualitative study of foreclosure counseling found that telephone counseling did not appear to be less effective than in-person counseling; instead, the study indicated that helping as many people as possible access quality counseling is the most critical factor for HEC's effectiveness.⁷⁵ Because the accessibility of HEC likely affects take-up and outcomes, different modes of HEC can help people with different needs.

Evidence To Come

The evidence to date indicates that HEC can substantially improve prospective and current homeowners' comprehension of their choices, financial decisionmaking, and ability to address issues that arise with their homes or finances. HEC can help participants lower their housing costs, save more income, improve their credit, avoid delinquency, address defaults, and avoid foreclosure. The rigor of the recent research indicates that HEC not only is associated with but *causes* these better outcomes.

Most of this research concerns low- and moderate-income homebuyers, who might stand to benefit most from HEC, and programs provided by HUD-approved counseling agencies. Both relatively low-cost initiatives related to HEC, such as the Ohio program that combined online education with coaching, and more intensive interventions, such as the National Foreclosure Mitigation Counseling program, appear to be cost effective. The evidence on timing suggests that the earlier homebuyers participate in pre- or postpurchase HEC, the better the outcome. Also, the amount of HEC homebuyers receive or the way they receive it appears to be less

important than the fact that the HEC is appropriate for their needs and is easily accessible.

Additional research will continue to develop our understanding of HEC. New, large-scale, randomized controlled trials promise to provide additional, definitive findings on the effect and design of HEC. HUD's in-progress, national First-Time Homebuyer Education and Counseling Demonstration, for instance, considers how prepurchase HEC affects outcomes for low-, moderate-, and middle-income first-time homebuyers. The study includes more than 5,800 participants who are randomly assigned to one of three groups: one that gives homebuyers in-person HEC from a HUD-approved counseling agency, one that provides online homebuyer education and telephone-based counseling, and a control group whose members receive no services. Research like this can further explain how best to tailor HEC to the diverse group of homebuyers who stand to benefit. **EM**

— Chase Sackett, *HUD Staff*

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- ⁴⁸ The postpurchase counseling was developed by the Massachusetts Affordable Housing Alliance, a HUD-approved housing counseling agency, and was delivered by a network of counseling agencies; University of North Carolina Center for Community Capital. 2012. "Massachusetts' SoftSecond® Loan Program," in *Regaining the Dream: Case Studies in Sustainable Low-Income Mortgage Lending*, 6–9.
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- ⁵¹ The study found no other statistically significant differences between these groups.
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Increasing Access to Sustainable Mortgages for Low-Income Borrowers

Homeownership continues to be an important avenue for building wealth in the United States, particularly among low-income and minority households. With safe and sustainable mortgages, homeowners can stabilize their monthly housing costs, build equity, and accumulate wealth over the long term through automatic savings associated with self-amortizing loans.¹ Following the foreclosure crisis, access to affordable home loans has been extremely limited for lower-income borrowers with less-than-pristine credit (see “Pressing Challenges in Housing Finance: Credit Access and Seniors’ Mortgage Debt,” p. 1). Although traditional lenders have tightened lending standards and restricted credit access, mission-driven entities such as community development financial institutions (CDFIs) and state housing finance agencies have long helped nontraditional borrowers and others underserved by the mainstream mortgage market. This article examines three organizations — Homewise, Self-Help, and MassHousing — that expand access to safe and affordable credit and sustainable homeownership for low-income and minority households. These organizations provide mortgages that often come with low interest rates and downpayment requirements, homebuyer education and counseling to prepare households for homeownership, and flexible underwriting criteria based on individual borrowers’ circumstances.

Facilitating Homebuying With an Integrated Approach

Santa Fe-based Homewise is a non-profit CDFI with a mission to promote homeownership and improve the financial vitality of New Mexico

- With its vertically integrated model that incorporates all aspects of homebuying under one roof and offers intense one-on-one support, Homewise is helping low- and moderate-income households pursue sustainable homeownership.
- Manual underwriting allows Self-Help to serve nontraditional borrowers while its secondary market programs expand access to safe and sustainable mortgages to low-income households nationwide.
- By partnering with community-conscious lenders and avoiding unsustainable mortgage practices, MassHousing has been able to help thousands of state residents attain homeownership while maintaining low default rates on its loans.

communities. Since its inception in 1986, Homewise has helped more than 3,000 households purchase homes through comprehensive homebuying programs including training and counseling, affordable mortgages, savings programs, and real estate services. The organization’s counseling and financial training programs have helped scores

of borrowers improve their credit profiles and increase their savings in preparation for buying a home.² Homewise originally provided only home improvement services. Beginning in the mid-1990s, however, Homewise expanded its focus to include all aspects of the homebuying process in response to an increasingly unaffordable Santa Fe housing market



In 2011, Homewise partnered with CHRISTUS St. Vincent Regional Medical Center to help hospital employees such as Rafael, pictured above, realize the dream of homeownership.

Corrie Photography



InSight Foto Inc.

Annette Naranjo used a loan from Homewise to purchase her first home and in the process became Homewise's 3,000th homeowner.

— by 2000, the median value of a home in Santa Fe County had reached \$189,000 compared with \$108,000 for New Mexico as a whole and \$120,000 for the nation as a whole.³ Around the same time, Homewise received CDFI certification from the U.S. Department of the Treasury, a designation that allows it to tap federal funds to support efforts to increase homeownership for low-income households. More recently, Homewise expanded into the Albuquerque market with HomeLIFT, a national program sponsored by NeighborWorks America and Wells Fargo that provides downpayment assistance, education, and credit counseling for homebuyers.⁴

Homebuyer Preparation. Homewise's business model brings the full range of home purchase services under one roof. Homewise counselors, in coordination with in-house real estate agents and lending staff, support clients from the initial prepurchase inquiry until the buyer closes on a home. One

key aspect of this arrangement, says Homewise chief executive officer Mike Loftin, is that "Homewise counselors help customers determine the price of the home they can afford before the potential buyer finds and gets attached to the perfect, but overpriced, home." Loftin has found that homebuyers make more financially sustainable choices if they begin with a clear understanding of their price range.⁵

In conjunction with this one-on-one support, Homewise offers clients courses in homebuyer education and financial fitness. Homebuyer education helps borrowers reduce unnecessary costs by, for example, teaching them how to shop for the best mortgage and understand monthly costs.⁶ Financial fitness classes help borrowers improve their credit score, save for a downpayment, and learn the basics of personal finance.⁷ Homewise also offers a downpayment savings program, SaveSmart, through which clients set a monthly savings goal and receive \$250 off closing costs when they reach this goal. According

to a 2015 Urban Institute analysis of Homewise, 55 percent of people who took the financial fitness class between 2009 and 2013 improved their credit score by 10 or more points, and 73 percent increased their savings, including 23 percent who saved \$15,000 or more.⁸ A Homewise analysis of its 2014 data showed that clients increased their credit score by an average of 17 points. For those starting with credit scores below 640, the increase was 83 points.⁹

Affordable Mortgages. Homewise offers various loan products, including first and second mortgages, downpayment assistance loans, and home improvement loans, that the organization originates and services in house.¹⁰ The first and second lien mortgages allow low-wealth households to purchase homes with a downpayment of as little as 2 percent. The first lien mortgage covers 80 percent of the purchase price, eliminating the need for mortgage insurance, and is eventually sold to Fannie Mae. The second lien is also a fixed-rate loan and is serviced and held by Homewise. Because

Homewise's in-house real estate agents, brokers, and servicers are salaried rather than commissioned workers, they have no financial interest in upselling customers.¹¹ This structure allows greater control over "loan-level pricing adjustments" (such as loan-to-value ratio and credit scores) that can increase the cost of the loan.¹² Homewise estimates that its use of a first and second mortgage lowers homeowners' monthly payments by \$140.¹³

The first and second mortgage structure, although cheaper for the borrower, creates risk for Homewise because it holds the second mortgage. If the borrower defaults, Homewise is paid only after the first mortgage has been paid in full. Second mortgages typically carry higher interest rates to offset this risk. Loftin, however, says that Homewise keeps its interest rates low and manages the risk by "really knowing the customer" — specifically, the loan amount that a particular customer can afford and the likelihood that the customer will repay the loan.¹⁴

Success of the Model. In 2015, Homewise made \$48 million in loans throughout New Mexico to 375 households for new homes, refinancing, and energy or safety improvements.¹⁵ Most of Homewise's clients are first-time homebuyers earning low to moderate incomes. The median income for a Homewise buyer in 2014 was \$49,145 compared with a median income of \$61,412 for owner-occupied households in the Santa Fe metropolitan area. Moreover, in 2014, 40 percent of Homewise's buyers earned less than 80 percent of the area median income (AMI), and 58 percent were Hispanic.¹⁶ The default rate on Homewise's loans, even during the foreclosure crisis, was very low. For all loans serviced between 2009 and 2013, 1.1 percent were seriously delinquent (late by 90 days or more); by comparison, the Federal Housing Administration's (FHA's) serious delinquency rate ranged from 7.3 to 9.5 percent during the same period. From 2009 to 2011, the percentage of seriously delinquent prime, fixed-rate loans in the United

States fluctuated between 4 percent and 7 percent.¹⁷

Homewise's low default rates are attributable in part to several structural elements of the model designed to help borrowers succeed. First, the vertically integrated business model allows Homewise to control most aspects of the purchase process, keeping costs low for the borrower. Homewise does not relax its credit standards, choosing instead to work with borrowers to improve their financial fitness and ensure that they are ready to purchase a home.¹⁸ Homewise is also directly tied to the success of a borrower through the second loan; Loftin considers this "an essential component of [Homewise's] business model,

The vertically integrated business model allows Homewise to control most aspects of the purchase process, keeping costs low for the borrower.

to share risk over time and have skin in the game."¹⁹ This means that Homewise helps borrowers at risk of default before they miss payments so that the borrowers avoid paying additional fees. Finally, Loftin explains that Homewise avoids operational grants so that "programmatic growth does not outstrip revenue growth." Although Homewise does apply for grants to enter new markets, it relies on revenue from loan origination and its other services to support new loans, a feature that helps ensure that the organization remains focused on helping the client purchase a home and that Homewise is not overextended. Loftin believes that the Homewise model is adaptable but cautions that organizations should judiciously add

pieces to their existing services instead of attempting to deploy a comprehensive model all at once.

Helping Underserved Borrowers Become Homeowners

The Center for Community Self-Help (Self-Help), founded in 1980, is one of the largest CDFIs in the nation. Self-Help initially helped rural North Carolina workers start their own businesses and started making home loans in 1985 to families who were unable to get traditional mortgages. The affiliated Self-Help Credit Union (SHCU) was formed in 1984 in Durham, North Carolina; following mergers with other credit unions in the state, SCHU has grown to more than 20 branches with \$650 million in assets and serves 60,000 North Carolinians. In 2008, Self-Help launched the Self-Help Federal Credit Union in California and later Illinois and Florida, which together serve more than 80,000 people. The Self-Help family also includes the Center for Responsible Lending, a nonpartisan research center working to eliminate abusive financial practices, and the Self-Help Ventures Fund, a loan fund that manages Self-Help's riskier loans and its secondary market mortgage program.²⁰

Self-Help Loan Products. Through its credit unions, Self-Help originates affordable home loans to many borrowers shut out or underserved by traditional credit markets, such as immigrants; lower-income, minority, or female-headed households; and borrowers with imperfect credit histories. Eighty percent of loans through SHCU are to low-income households earning less than 80 percent of AMI, and 70 percent are to minorities.²¹ Since its founding, Self-Help has originated 6,300 loans totaling \$527 million to homeowners.²² All loans issued through SHCU are manually underwritten, permitting loan officers to apply flexible underwriting standards for credit scores, sources of income, income-to-debt ratios, and past debt, particularly medical debt. About half of all SHCU borrowers do not



Photo courtesy of North Carolina Housing Finance Agency

Elizabeth Mobley, pictured above with her grandson, used a loan from Self-Help to purchase a home a block from where she grew up in Charlotte, North Carolina.

have a documented credit score, and many other borrowers have low credit scores, says Deborah Momsen-Hudson, vice president and director of secondary marketing at SHCU. SHCU uses alternative credit scoring that considers rental, utility, and cell phone payment histories, among other measures, to determine the creditworthiness of these borrowers.²³ Funding for Self-Help's loan products primarily comes from the deposits in the credit unions. Other sources include foundation and government grants, investment income, interest on loans, and fees.²⁴

In addition to site-built homes, SHCU offers loans to purchase manufactured homes, a common housing option in North Carolina. Manufactured homes account for more than 13 percent of the state's overall housing stock, and this percentage is much higher in many rural counties.²⁵ SHCU offers 30-year, fixed-rate loans for manufactured homes that have no mortgage insurance and require a downpayment of

only 5 percent. Borrowers' credit scores can be as low as 580, and the home must have been in place for 1 year and be owner occupied. The purpose of these loans, says David Beck, media and policy director at Self-Help, is to help households build wealth and stability by purchasing the land the home sits on rather than the physical unit, which can depreciate quickly.²⁶

The Community Advantage Program.

Self-Help also expands prime lending to otherwise ineligible low-income households through its secondary market programs, the Community Advantage Program (CAP) and the recently announced Affordable Loan Solution program. Self-Help first entered the secondary market in 1994 with the purchase of \$20 million in nonconforming loans from Wachovia, which freed up capital for Wachovia to continue making loans to low- and moderate-income borrowers. Self-Help launched CAP in 1998 as a national program in partnership with Fannie Mae, which agreed

to purchase \$2 billion worth of loans, and the Ford Foundation.²⁷ Through CAP, Self-Help serves as a financial intermediary between lenders and investors. Using guidelines approved by Self-Help, lenders make loans to low-income borrowers. Self-Help purchases the loans and sells them to Fannie Mae. Banks that sell mortgages to Self-Help commit to using the proceeds to make additional mortgages to lower-income families. Self-Help is ultimately responsible for the loan; if a borrower defaults, Self-Help will purchase the mortgage back from Fannie Mae using a loss reserve fund that was established with a \$50 million grant from the Ford Foundation. This arrangement frees up financing for mortgage originations to low-income borrowers because investors in the mortgage-backed securities have confidence that they will recoup their investment.²⁸

Through the secondary market program, Self-Help is able to significantly expand prime lending among many

borrowers shut out of the market. The program has provided \$4.5 billion in financing to support more than 50,000 low- and moderate-income homebuyers nationwide.²⁹ CAP borrowers are typically low-income earners, and a significant percentage are women and minorities.³⁰ Many CAP borrowers would also be otherwise ineligible to receive prime loans because of low credit scores, high debt-to-income ratios, or insufficient funds for downpayments. Eighty-eight percent of borrowers would have failed to meet one of these three standards, and more than 69 percent of borrowers put down less than 5 percent of the purchase price.³¹

An evaluation of 46,000 CAP borrowers by the University of North Carolina Center for Community Capital found that homeowners in the CAP program had defaulted at rates that were much lower than those of similar borrowers with subprime adjustable and subprime fixed-rate loans, and they saw significant gains in household wealth.³² At the height of the subprime crisis in the fourth quarter of 2009, CAP loans had a default rate of 9.6 percent compared with 47.7 percent for subprime adjustable-rate

mortgages and 22.1 percent for subprime fixed-rate mortgages. CAP participants also realized significant growth in the equity of their home. Through the first quarter of 2014, the median equity gained was \$21,727. CAP borrowers also saw their overall net worth increase by \$11,000 between 2008 and 2014 compared with renters, who saw only a \$742 increase in their net worth over the same period.³³

CAP loans slowed following the housing crisis. “As with all mortgage markets, the 2008 recession greatly reduced the volume of CAP loans as incomes and qualified borrowers fell and lenders retrenched,” reports Momsen-Hudson. Although a number of loans are still being serviced, new originations have mostly stopped.³⁴ In February 2016, Self-Help launched a new partnership with Bank of America and Freddie Mac called the Affordable Loan Solution program to increase liquidity in the secondary market for lower-income originations. The program is similar to CAP: Bank of America will originate loans through its 4,700 financial centers, and Freddie Mac will purchase the loans while Self-Help takes on the default

risk. Borrowers must use the home as their primary residence, earn less than 100 percent of AMI, and complete a homebuying education course if they are first-time buyers.³⁵

Self-Help deploys several strategies to reduce the risk of the loans in its secondary market programs. For CAP, Self-Help worked with about 35 lenders to originate loans but consolidated the riskiest of those loans with 2 “high-touch” servicers. High-touch servicers stay engaged with borrowers and provide counseling, financial education, and other support as needed. These services, explains Momsen-Hudson, are crucial for reducing financial loss and helping borrowers keep their homes. For example, lenders will intervene on loans that are 6 days past due instead of waiting the industry-standard 16 days.³⁶ This practice helps borrowers avoid costly late payment penalties and stay current on their mortgages. Several studies have shown that counseling can help borrowers avoid default, remain in their homes, and make their mortgage current if they’ve missed a payment (see “The Evidence on Homeownership Education and Counseling,” p. 13).



Photo courtesy of North Carolina Housing Finance Agency

Self-Help and several local partners developed Elizabeth Heights, a 36-unit affordable housing subdivision for first-time homebuyers in Charlotte, North Carolina.

For the new Affordable Loan Solution program, Self-Help will continue to provide high-touch services to borrowers.³⁷

The CAP loan products were also constructed to make repayment easier for borrowers and reduce the risk to Self-Help. Limits on loan size meant that even during the crisis, Self-Help was not on the hook for excessively large loans. All CAP loans were also fully documented to prevent fraud and fully escrowed, meaning that related expenses such as insurance and property taxes were taken out monthly rather than at the end of the year. Escrowing helps borrowers plan their expenses rather than take a “huge cash-flow hit” at the end of the year, says Momsen-Hudson. Finally, Self-Help kept monthly payments low by limiting the number of fees and points that loan originators can add to the loan. Limiting fees had the added benefit of attracting lenders that were more interested in making quality loans than in making excessive profits off of the loan.³⁸

Making Homeownership a Reality in Massachusetts

State housing finance agencies (HFAs) are state-chartered, mission-oriented housing agencies that increase affordable housing for low-income households in their respective states. These agencies use mortgage revenue bonds to issue affordable home loans and have helped more than 3 million first-time homebuyers since the 1960s.³⁹ Researchers studying the evolving role of state HFAs have found the entities to be “highly effective in addressing important market functions while at the same time fulfilling the public purpose of facilitating access to mortgages to creditworthy but otherwise underserved borrowers.”⁴⁰ The state of Massachusetts’ HFA, MassHousing, has provided loans to more than 60,000 homebuyers since it began its first homeownership loan program in 1979.⁴¹ In 2006, MassHousing became one of the first state HFAs to create mortgage-backed securities (MBS) for sale on the secondary market. MassHousing’s loan programs

have helped thousands of low-income households attain homeownership while maintaining low default rates, even during the housing market crash and foreclosure crisis.⁴²

Using Bonds and Securities To Finance Affordable Mortgages.

MassHousing’s homeownership division provides 30-year, fixed-rate mortgages as a wholesale lender and does not originate loans. Instead, the organization purchases mortgages from lenders throughout the state using capital raised from Fannie Mae and private investors rather than taxpayers.⁴³ From its creation until 2006, MassHousing relied exclusively on mortgage revenue bonds (MRBs), which are tax-exempt bonds sold at below-market interest rates, to fund loan purchases. Although this system worked for a number of years, MassHousing’s bond capacity was capped at \$200 million and was not raised as the average price of mortgages increased. According to Peter



City of New Bedford; MassHousing

A formerly vacant home in New Bedford, Massachusetts, was revitalized as part of the BuyCities program.



Mike Ritter

The Noyes family was able to use a Home for the Brave loan to purchase an affordable home in Wrentham, Massachusetts.

Milewski, director of homeownership lending and the mortgage insurance fund at MassHousing, the cap meant that over time, MassHousing could purchase fewer and fewer loans and would be in and out of the market, creating uncertainty and instability for lenders.⁴⁴

Beginning in 2006, MassHousing partnered with Fannie Mae to create MBS to access more funds to finance affordable mortgages. MassHousing creates its MBS with mortgages purchased from a network of 170 originators. Once the MBS is created, it can either be used as collateral for an MRB (and thus tap into the bond market) or sold on the to-be-announced (TBA) market. The TBA market is a market for 15- and 30-year, fixed-rate mortgage-related securities in which the securities being traded do not have to be specified when the trade is made (hence the name “to be announced”).⁴⁵ MassHousing can select either the bond or TBA market depending on which one offers the best price on a given day. Accessing the

TBA markets also allows MassHousing to make more loans than it otherwise could; from 2010 to 2015, MassHousing’s average yearly lending for single-family homes was \$693 million, an increase of 262 percent from the 2000 to 2005 period, before the MBS program began. Furthermore, during the recent economic downturn, MassHousing could fund mortgage loans when many state HFAs dependent on MRBs had to scale down or suspend lending.⁴⁶

Mortgage Loan Products. MassHousing funds loans for home purchase, refinance, or improvement. Loans include those without mortgage insurance (in partnership with Fannie Mae) and with low interest rates, low downpayment requirements, flexible underwriting, and mortgage payment protection in the event of unemployment.⁴⁷ Borrowers with a downpayment of less than 10 percent must complete a homebuyer education course. MassHousing offers an online course called “The Road Home” and in-house delinquency counseling as

well as courses with partnering counseling agencies.⁴⁸ A risk-sharing program with Fannie Mae allows MassHousing to originate loans without mortgage insurance; borrowers are charged a slightly higher interest rate that is passed on to Fannie Mae as a guarantee fee in lieu of mortgage insurance. MassHousing agrees to take on early payment default risk for these loans, meaning that the organization agrees to take any loss at foreclosure. Taken together, the savings from forgoing mortgage insurance can outweigh the cost of the higher interest rate.⁴⁹ Through its Mortgage Insurance Fund, MassHousing also offers MI Plus, a program that helps borrowers make payments for up to six months in the event that they experience unemployment. About 1,000 borrowers have accessed benefits from the MI Plus program since it began in 2005, and 850 are still in their homes because of it.⁵⁰ In addition to products targeted to low- and moderate-income homebuyers, MassHousing created two loan programs for current and former members

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Programs for Older Homeowners

While younger borrowers pursuing homeownership are confronting tightened access to safe and affordable credit, a growing number of seniors are struggling to maintain homeownership as a result of high levels of debt, particularly mortgage debt. Nonhousing debt among adults aged 50 to 64 has nearly doubled over the past 20 years, and more than 70 percent of homeowners in the same age cohort are still paying off their mortgages, an increase of 12 percent from 1992 to 2010 (see “Pressing Challenges in Housing Finance: Credit Access and Seniors’ Mortgage Debt,” p. 1).¹ Two programs, Florida’s Elderly Mortgage Assistance Program (ELMORE) and the Senior Financial Empowerment Initiative of the nonprofit Empowering and Strengthening Ohio’s People (ESOP), help senior homeowners experiencing financial difficulties remain in their homes.

Florida is home to a large number of elderly people, many of whom have taken out reverse mortgages and are facing financial hardship and possibly foreclosure following the housing crisis.² Reverse mortgages allow seniors to draw on the equity in their home to supplement their income. Homeowners typically do not need to pay back the loan until they sell their home, but they still must pay some housing expenses, such as property taxes and homeowners insurance. To help seniors in danger of losing their homes because of past-due property charges, the Florida Housing Finance Corporation (Florida Housing), the state’s housing finance agency, launched the ELMORE program in 2013. The program uses a portion of the state’s federal Hardest Hit Funds to provide seniors with up to \$50,000 as a 2-year, forgivable loan that can be used to bring property taxes, homeowner’s insurance, flood insurance, and homeowners or condominium association dues current and pay those charges for an additional year in the future.

To be eligible, a senior must have a reverse mortgage with a regulated financial institution and must have suffered a qualifying hardship, such as medical expenses or unemployment, that resulted in nonpayment of charges. In addition, eligible seniors must earn less than 140 percent of the area median income and have the ability to pay property charges in the future. Florida Housing works with the Florida Department of Elder Affairs and Area Agencies on Aging to publicize the program. This partnership allows the corporation to reach more seniors and offer those in need in-home assistance to apply for the program, notes Cecka Rose Green, Florida Housing’s communications director.³ As of March 2016, the program has disbursed \$14.8 million to help 894 seniors keep their homes.⁴

ESOP, a HUD-approved housing and financial counseling agency in Cleveland, Ohio, is helping seniors become and remain economically secure as they age in place. Many senior homeowners in Cleveland are underwater or pay more than one-third of their income toward housing. Launched in 2014, ESOP’s Senior Financial Empowerment Initiative works with banking and housing organizations to create services that improve the economic stability of low- and moderate-income seniors. Programs include one-on-one financial counseling and education workshops; benefits checks and referrals, in which ESOP staff help seniors identify and apply for benefits for which they are eligible; and a property tax loan program. The Senior Property Tax Loan program provides loans of up to \$6,500 to homeowners 55 and older in Cuyahoga County, Ohio, to pay delinquent property taxes and avoid foreclosure. Seniors participating in the loan program receive a comprehensive financial assessment and must undergo financial coaching at ESOP. As of September 2015, a little more than a year since its launch, the property tax loan program has provided more than \$80,000 to assist 18 seniors.⁵

¹ Joint Center for Housing Studies of Harvard University. 2014. “Housing America’s Older Adults: Meeting the Needs of an Aging Population.”

² Florida Housing Finance Corporation. “Florida Elderly Mortgage Assistance (ELMORE) Program Website” (www.floridaelmore.org/). Accessed 30 April 2016; Florida Housing Finance Corporation. 2013. “Florida Housing Launches Hardest-Hit Fund Mortgage Assistance for Elderly Homeowners,” press release, 12 November.

³ Interview with Cecka Rose Green, 5 April 2016.

⁴ Ibid.

⁵ Empowering and Strengthening Ohio’s People. “Senior Financial Empowerment Initiative” (www.esop-cleveland.org/programs-services/senior-financial-empowerment.html). Accessed 30 April 2016; Empowering and Strengthening Ohio’s People. 2015. “ESOP Annual Report 2015,” 4.

of the military designed to fill coverage gaps in U.S. Department of Veterans Affairs loans. Operation Welcome Home provides a low-interest first mortgage covering up to 97 percent of the purchase price and a zero-interest second mortgage covering up to 3 percent, and Home for the Brave loans cover up to 97 percent of the purchase price. The lenders hold the loan in their portfolio, and MassHousing provides insurance through its Mortgage Insurance Fund.⁵¹

MassHousing also has loan programs that target specific geographic areas. The Buy Cities program works with local lenders to provide low- or no-downpayment mortgages in cities such as New Bedford or Worcester that have lost large numbers of manufacturing jobs and have high poverty levels. The program works by creating local partnerships and leveraging the contributions of those partners. According to Milewski, lenders, local city officials, real estate agents, and retail businesses agreed to create a bundle of products and services to make homebuying easier.⁵² With the city of Worcester's "Buy Worcester Now" program, lenders reduced interest rates for MassHousing-sponsored loans, and real estate agents incorporated the program into their marketing. Local partners, including universities, a hospital, and an insurance company, offered employer-sponsored downpayment and closing cost assistance. About \$100 million in loans have been made through the Buy Cities program.⁵³

MassHousing's Successes. In 2015, MassHousing helped more than 3,000 low- and moderate-income families purchase or refinance a home in the state. The agency reported having 22,000 loans valued at \$4.1 billion in its portfolio as of June 2015.⁵⁴ At the end of fiscal year 2015, the delinquency rate for all of MassHousing's single-family home loans was 3.2 percent.⁵⁵ Even during the foreclosure crisis, MassHousing's single-family home loan delinquency rate was 4.4 percent at the end of fiscal year 2011 compared with FHA's 10.1 percent delinquency

rate during the same period.⁵⁶ Milewski attributes MassHousing's low default rates to avoiding unsustainable mortgage practices and the excesses of the housing crisis. Specifically, he notes that MassHousing's loans are fully documented 30-year, fixed-rate loans for owner-occupied homes. Borrowers putting less than 10 percent down complete a "fairly extensive homebuyer counseling program," says Milewski, which helps prepare them for owning and keeping a home. MassHousing has also built strong relationships with its local lenders and counseling agencies. Milewski notes that these organizations have demonstrated a commitment to sustainable housing and community reinvestment.⁵⁷

Conclusion

Homewise, Self-Help, and MassHousing programs demonstrate the viability of lending to creditworthy low-income borrowers underserved by the mainstream mortgage market. These organizations are helping thousands of low-income families achieve and sustain homeownership by providing access to safe and affordable loans, offering downpayment assistance and homebuyer training, and working with borrowers at risk of

default. Counseling and educational services, in particular, promote buyer readiness by improving credit scores, boosting savings, and instilling a sound understanding of personal finances. Homewise's model of low-downpayment loans without mortgage insurance, for example, ensures that borrowers are thoroughly prepared for the responsibility of a mortgage through rigorous homeownership classes, one-on-one counseling, and financial fitness training. According to Homewise's Loftin, "Our philosophy is that we want to minimize the barriers to entry in terms of downpayment, but let's improve financial habits, not reduce standards."⁵⁸ Even after a borrower has taken out a loan, high-touch servicers are "worth every penny," says Momsen-Hudson. With CAP, Self-Help found it critical to work with reputable lenders that are willing to intervene early and often when borrowers are in trouble. Momsen-Hudson believes that "whom we chose to do businesses with really matters." CAP limited the amount of fees a lender could charge so that "lenders weren't only interested in making a profit."⁵⁹ MassHousing's loan programs also found success by working with "community conscious" lenders, says Milewski.⁶⁰



MassHousing's lender-paid mortgage insurance and 3 percent downpayment requirement made homeownership a reality for the Abreau family.

Mike Ritter

Overall, the foreclosure crisis has wrought only minor changes for these organizations. Homewise has expanded outreach to counteract the attitude that homeownership is unaffordable or unobtainable. And Self-Help recently retooled its secondary market program as tightening credit standards shrank the number of new mortgages. The core mission and strategies of Homewise, Self-Help, and MassHousing, however, have remained consistent throughout the Great Recession and the postrecession period. According to Milewski, “Our vision, mission, goals, or objectives have not changed in eons. We are doing business philosophically the very same way we were doing it — a commitment to safe, affordable homeownership.”⁶¹ In many ways, the housing market crash reinforced the strength of their lending models. The programs’ low default rates demonstrate that a well-constructed home loan for a low-income borrower is a good credit risk even during the worst housing crisis in a century. **EM**

¹ Christopher E. Herbert, Daniel T. McCue, and Rocío Sanchez-Moyano. 2013. “Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?),” Joint Center for Housing Studies of Harvard University, 2.

² Homewise. “About Us” (www.homewise.org/about-us/). Accessed 3 February 2016; Homewise. 2015. “From House To Home: 2015 Annual Report,” 3; University of North Carolina Center for Community Capital. 2014. “Regaining the Dream: Case Studies in Sustainable Low-Income Mortgage Lending,” 19.

³ U.S. Census Bureau. 2000. “Profile of Selected Housing Characteristics: 2000 more information Census 2000 Summary File 3 (SF 3) - Sample Data.”

⁴ Email Correspondence with Mike Loftin, chief executive officer of Homewise, 14 March 2015; WellsFargo. “The Wells Fargo LIFT Programs” (www.wellsfargo.com/mortgage/lift/). Accessed 14 March 2016; Neighborworks America. “LIFT Programs” (www.neighborworks.org/homes-finances/homeownership/lift-programs). Accessed 28 March 2016.

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⁷ Ibid.

⁸ Brett Theodos, Christina Plerhoples Stacy, and William Monson. 2015. “A New Model for the Provision of Affordable Homeownership,” Urban Institute, 10, 19.

⁹ University of North Carolina Center for Community Capital, 19.

¹⁰ Homewise. “Becoming a Homeowner” (www.homewise.org/become-a-homeowner/). Accessed 28 March 2016; Homewise 2015, 1.

¹¹ Interview with Mike Loftin; Theodos et al., 11; University of North Carolina Center for Community Capital, 18–9.

¹² Ibid.

¹³ Theodos et al., 9.

¹⁴ Interview with Mike Loftin.

¹⁵ Homewise 2015, 9.

¹⁶ U.S. Census Bureau. 2014 American Community Survey 1-Year Estimates; University of North Carolina Center for Community Capital, 18–9.

¹⁷ Theodos et al., 22.

¹⁸ University of North Carolina Center for Community Capital, 19.

¹⁹ Interview with Mike Loftin.

²⁰ Email correspondence with David Beck, media and policy director at Self-Help Credit Union, 23 March 2016; Center for Community Self-Help. “Self-Help Credit Union” (www.self-help.org/who-we-are/self-help-family/self-help-credit-union). Accessed 3 February 2016.

²¹ Email correspondence with David Beck, 23 March 2016.

²² Data presented are for the period from 1980 to 2014; Martin D. Eakes. 2015. “A Future for Community Credit Unions,” presentation for the National Federation of Community Development Credit Unions, 24 September; Center for Community Self-Help. 2014. “Community Impact 1980 – 2014.”

²³ Interview with Deborah Momsen-Hudson, vice president and director of secondary marketing at Self-Help Credit Union, 25 February 2016.

²⁴ Interview with David Beck, 25 February 2016.

²⁵ U.S. Census Bureau. “2010–2014 American Community Survey 5-Year Estimates” (www.census.gov/data/developers/data-sets/acs-survey-5-year-data.html). Accessed 29 March 2016.

²⁶ Interview with David Beck.

²⁷ Roberto Quercia, Allison Freeman, and Janneke Ratcliffe. *Regaining the Dream: How to Renew the Promise of Homeownership for America’s Working Families*, Washington, DC: Brookings Institution Press, 30–3.

²⁸ Interview with Deborah Momsen-Hudson; University of North Carolina Center for Community Capital, 4.

²⁹ Eakes.

³⁰ In 2010, the median household income for CAP borrowers was \$30,792; 41 percent were women and 42 percent were minorities. See also Quercia et al., 30–3; University of North Carolina Center for Community Capital. 2014. “Community Advantage Panel Study: Sustainable Approaches to Affordable Homeownership,” 3.

³¹ Allison Freeman. 2014. “The Continuing Importance of Homeownership: Evidence from the Community Advantage Program,” University of North Carolina Center for Community Capital, 2.

³² University of North Carolina Center for Community Capital. 2014. “Community Advantage Panel Study,” 4; 6.

³³ Freeman, 2.

³⁴ Interview with Deborah Momsen-Hudson; email correspondence with David Beck, 22 April 2016.

³⁵ Self-Help. “Secondary Mortgage Market Program” (www.self-help.org/what-we-do/we-learn-and-innovate/secondary-mortgage-market). Accessed 14 March 2016; Bank of America. 2016. “Bank of America Launches Affordable Lending Mortgage Program to Help Low- and Moderate-Income (LMI) Homebuyers,” press release, 22 February.

³⁶ Interview with Deborah Momsen-Hudson.

³⁷ Ibid.

³⁸ Ibid.

³⁹ National Council of State Housing Agencies. “About HFAs” (www.ncsha.org/about-hfas). Accessed 3 February 2016; National Council of State Housing Agencies. “Housing Bonds” (www.ncsha.org/advocacy-issues/housing-bonds). Accessed 3 February 2016.

⁴⁰ Stephanie Moulton and Roberto G. Quercia. 2013. “Access and Sustainability for First Time Homebuyers: The Evolving Role of State Housing Finance Agencies,” Joint Center for Housing Studies of Harvard University, 2.

⁴¹ Created in 1966 by the state legislature, the Massachusetts Housing Finance Agency started operating as MassHousing in 2001.

⁴² MassHousing. “MassHousing History” (www.masshousing.com/portal/server.pt/community/about_masshousing/221/history). Accessed 5 February 2016.

⁴³ MassHousing. “MassHousing Mortgages” (www.mass.gov/hed/housing/affordable-own/about-masshousing-mortgages.html). Accessed 14 March 2016.

⁴⁴ MassHousing. n.d. “MassHousing’s Fannie Mae MBS Execution”; Interview with Peter Milewski, 1 March 2016.

⁴⁵ James Vickery and Joshua Wright. 2013. “TBA Trading and Liquidity in the Agency MBS Market,” New York Federal Reserve Board, 1–5.

⁴⁶ MassHousing, n.d.; Interview with Peter Milewski; Tom Gleason. 2015. “Affordable Lending is a Good Business Decision,” *Industry Voice*, 8 October.

⁴⁷ Mortgage loan limits based on income vary depending on location and family size. For example, the mortgage loan limit is approximately \$800,000 for a family of four and \$533,000 for a family of two. See also MassHousing. “Loans for Home Buyers” (www.masshousing.com/portal/server.pt/community/home_buyers/225/loans_for_home_buyers). Accessed 5 February 2016.

⁴⁸ MassHousing. “MassHousing Mortgages” (www.mass.gov/hed/housing/affordable-own/about-masshousing-mortgages.html). Accessed 14 March 2016.

⁴⁹ Interview with Peter Milewski.

⁵⁰ MassHousing. 2015. “MassHousing Mortgage Insurance Fund added as an approved primary Mortgage Insurance provider by the Federal Home Loan Bank of Boston,” press release, 19 August.

⁵¹ MassHousing. “Operation Welcome Home” (www.masshousing.com/portal/server.pt/community/home_buyer_loans/226/operation_welcome_home). Accessed 4 May 2016; Operation Welcome Home loans are for first-time homebuyers whereas Home for Brave loans can be used for purchase or refinancing; Interview with Peter Milewski.

⁵² Interview with Peter Milewski.

⁵³ Ibid.; MassHousing. 2015. “Homeownership – Empowering New Buyers: MassHousing’s Buy Cities Program.”

⁵⁴ MassHousing. 2015. “Standard & Poor’s upgrades MassHousing’s Issuer Credit Rating to AA-,” press release, 11 December.

⁵⁵ MassHousing. “MassHousing Financials” (www.masshousing.com/portal/server.pt/community/financial_information/220/masshousing_financials). Accessed 5 February 2016; MassHousing. 2015. “Michael J. Dirrane appointed by Governor Baker as Chairman of MassHousing,” press release, 8 September.

⁵⁶ MassHousing. 2014. “MassHousing 2014 Annual Report.”

⁵⁷ Interview with Peter Milewski.

⁵⁸ Interview with Mike Loftin.

⁵⁹ Interview with Deborah Momsen-Hudson.

⁶⁰ Interview with Peter Milewski.

⁶¹ Ibid.

Additional Resources

- The Urban Institute's Housing Finance Policy Center offers "Housing Finance At A Glance," a monthly chartbook of relevant housing finance statistics, a Housing Credit Availability Index, and ongoing analysis of housing finance issues. www.urban.org/policy-centers/housing-finance-policy-center.
 - *The American Mortgage System: Crisis and Reform* (2011), edited by Susan M. Wachter and Marvin M. Smith, contains a series of essays addressing the causes and implications of the housing crisis as well as recommendations for reforming the mortgage system and its core institutions. www.upenn.edu/pennpress/book/14884.html.
 - "An Overview of the Housing Finance System in the United States" (2013), by Sean M. Hoskins, Katie Jones, and N. Eric Weiss, introduces readers to the workings of the primary and secondary mortgage markets. www.fas.org/sgp/crs/misc/R42995.pdf.
 - "The Uneven Housing Recovery" (2015), by Michela Zonta and Sarah Edelman, examines the geographically uneven nature of the housing recovery, focusing on areas of the country with high concentrations of underwater mortgages. cdn.americanprogress.org/wp-content/uploads/2015/10/30051742/UnevenHousingRecovery-reportB.pdf.
 - *Preventing the Next Mortgage Crisis: The Meltdown, the Federal Response, and the Future of Housing in America* (2015), by Dan Immergluck, examines evidence on the causes of the mortgage crisis, reviews policy responses, and considers reforms and their neighborhood-level impacts. rowman.com/ISBN/9781442253131/Preventing-the-Next-Mortgage-Crisis-The-Meltdown-the-Federal-Response-and-the-Future-of-Housing-in-America#.
 - "Globalization of Finance and the Future of Home Mortgage Finance" (2015), by Kathe Newman, discusses how changes in the modern banking system since the middle of the 20th century have created new problems for mortgage credit supply. www.tandfonline.com/doi/pdf/10.1080/10511482.2015.1042209.
 - *Homeownership Built to Last: Balancing Access, Affordability, and Risk After the Housing Crisis* (2014), edited by Eric S. Belsky, Christopher E. Herbert, and Jennifer H. Molinsky, addresses the central tension of post-crisis housing finance: the twin policy goals of expanding credit access and limiting risk to taxpayers, financial institutions, and homeowners. www.brookings.edu/research/books/2014/homeownership-built-to-last.
 - "Data point: Medical debt and credit scores" (2014), by the Consumer Financial Protection Bureau, examines the implications of medical collections on credit access and debt payment. files.consumerfinance.gov/f/201405_cfpb_report_data-point_medical-debt-credit-scores.pdf.
 - "A Profile of Housing and Health Among Older Americans" (2013), by Gary V. Engelhardt, Michael D. Eriksen, and Nadia Greenhalgh-Stanley, provides a demographic and financial profile of near-old (aged 55 through 64) and older homeowners. howhousingmatters.org/wp-content/uploads/2014/09/A-Profile-of-Housing-and-Health-Among-Older-Americans.pdf.
 - "Challenges and Changes in Community-Based Lending for Homeownership" (2011), by Abigail Pound, discusses strategies used by community-based organizations, such as certified community development financial institutions, community development corporations, and nonprofit homeownership centers, to expand mortgage lending to low- and moderate-income households. www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w11-2_pound.pdf.
- For additional resources archive, go to www.huduser.gov/portal/periodicals/em/additional_resources_2016.html.

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