

CHAPTER 3

EMPOWERING THE HOMEBUYER: SIMPLIFYING THE HOMEBUYING PROCESS, REDUCING COSTS, AND PROMOTING FINANCIAL EDUCATION

- *Modernize and simplify the homebuying process so that it is less complicated for the purchaser, reduces barriers to homeownership by promoting cost savings, and empowers the consumer with the ability to guarantee the costs charged at closing.*
- *Promote financial education through housing counseling and other efforts.*

Modernizing the Homebuying Process

Today, consumers have certain protections when they make most purchases – basic information about what they are buying, how much it costs, and where the money is going. These protections are too often missing when it comes to buying a home. At closing, too many families sit down only to discover unexpected fees that can add hundreds, if not thousands, of dollars to the cost of their loans. They are not clearly told who is getting their money or what services they are receiving in return. And because these changes may be thrust upon the buyer at the last moment, the buyer often has no realistic opportunity to determine whether these extra costs are at all reasonable. On the spot, the purchaser is forced to make an impossible choice: either hand over the extra cash and sign, or lose the house. The legislation mandating the information to be afforded consumers in connection with their home purchase, the Real Estate Settlement Procedures Act (“RESPA”) dates back to 1974, and often fails to address the onerous paperwork required to buy a home.

If we are to expand the ranks of America’s homeowners, then we must address the challenge of simplifying the homebuying experience to make it less confusing, the paperwork demands less time-consuming, and the mortgage process itself less expensive. The current system does not provide sufficient clarity for lenders or borrowers as to which fees are appropriate or the time at which disclosure of these fees must occur. It does not promote competition so that cost savings can be realized. In short, the current homebuying process is antiquated and unfit for a modern information economy intended to empower the consumer.

The Administration is committed to providing a better way for Americans. Full disclosure of all settlement costs, up front, before homebuyers have to pay fees to a broker or lender should be an element of the process. The guiding principles of the Administration’s approach are that consumers get simpler, clearer, and earlier disclosure, and that they are given a meaningful opportunity to shop for the best mortgage for their needs. The process should be made speedier, structured so as to encourage cost savings, and provide the homebuyer with greater certainty of the costs they will bear at closing.

Empowering Consumers Through Education

In order to expand homeownership, we must also ensure that those who purchase a home are better able to avoid circumstances that might result in foreclosure. An educated homebuyer is the best defense against abusive lending practices, known as predatory lending, that have too often been used by unscrupulous lenders. Borrowers need to be aware that, while most individuals in housing-related industries are professionals who serve their clients well, there are those who will pressure them to accept loans with exorbitant fees or terms that could cause the borrower to default and lose their home. The buyer needs to be prepared for these situations, and the best defense is knowledge. With the proper financial education, borrowers will be better able to identify inappropriate or even illegal terms and are more likely to have the courage necessary to turn down loans with such terms. Informed borrowers are less likely to invest in overpriced or damaged homes, accept exceedingly high interest rates, or lose their homes.

One of the best ways to avoid future problems and promote homeownership is to educate families about the process and responsibilities of homeownership. Housing counseling services can also help low- to moderate-income renters improve their access to affordable housing by improving their ability to budget for needed home expenses and regular rent payments, enhancing their housing conditions, and helping them to avoid rental delinquency. These counseling services have been proven to be extremely important in helping families purchase a home and keep it in times of financial stress. With appropriate advice, families coping with financial difficulties are more likely to survive tough times with their homes intact.

The Administration has proposed increasing funding for comprehensive housing counseling, including such services as pre-purchase, default, and renter counseling to potential homeowners and tenants, by \$15 million for FY 2003, for a total of \$35 million. These housing counseling grants will help take the uncertainty out of homebuying for thousands of Americans, empowering them to avoid predatory lending, make more informed home purchases, and understand the lending process more clearly. Expanding the Administration's housing counseling program will ensure that Americans who want to buy homes have a road map to ownership, and that those who already live in their homes are able to keep them.

Of course, a bank account, a credit record, and a firm understanding of household finances are all necessary steps toward homeownership. Accordingly, the Administration is taking additional steps to ensure that financial education efforts are expanded:

- The Department of the Treasury is leading an interagency effort to coordinate and expand financial education initiatives from the federal government. Treasury has recently established The Office of Financial Education (OFE) to generate and coordinate financial education efforts. OFE will work with the many private sector organizations that provide financial education programs.
- “Bank on Your Schools” is a Treasury-sponsored partnership between schools and financial institutions that encourages financial institutions to open student-run branches in schools. This will give youths from low- and moderate-income areas hands-on experience running a

bank or credit union. The Department of the Treasury and the Department of Education will work to promote the integration of financial education in the schools.

- The Federal Deposit Insurance Corporation is offering a financial education initiative called “Money Smart.” The program is a training curriculum that helps consumers of any age gain a better understanding of banking products and services, savings, and the importance of good credit. The Money Smart program includes instructor-led training modules covering basic financial topics. It is free to those interested in sponsoring financial education workshops. Since July 2001, the FDIC has announced plans to deliver the program nationwide by working with organizations like the Neighborhood Reinvestment Corporation and Operation Hope, Inc. and the Office of the White House Initiative on Asian Americans and Pacific Islanders. The FDIC has also partnered with the Department of Labor (DOL) to deliver financial education through DOL’s Welfare-to-Work and Workforce Investment Act programs. The DOL’s 800 One Stop Centers provide a national network for delivering financial education. Financial institutions have also been encouraged to participate because doing so results in positive consideration under the Community Reinvestment Act.

- The Treasury Department is administering a new grant program called “First Accounts.” First Accounts helps “unbanked” low- and moderate-income individuals to a “banked” status with an insured financial institution. The federal government funds the private sector provision of low-cost accounts at insured depositories, access to automated teller machines, and financial education for unbanked low- and moderate-income individuals. In this way the federal government hopes to increase the pool of potential homeowners. The awardees will provide financial literacy training, offer insured accounts, develop low- or no-cost products and services, and increase access to financial services through installation of automated teller machines. The projects are focused on a wide variety of unbanked people, e.g., youth, new entrants to the workforce, recent immigrants, residents of low-income communities, residents in rural areas, Native Americans living on reservations, people living in public housing, families using childcare facilities. Awardees pledge that the funded demonstration projects will result in more than 35,000 unbanked people moving to a banked status with an insured depository institution.