

Counseling Works

The following is a brief summary of the research evidence on the role of housing counseling in reducing mortgage delinquency and foreclosure and on helping first-time buyers access and sustain homeownership.

Post-Purchase Foreclosure Mitigation Counseling

There is strong evidence that housing counseling can be an effective intervention in helping distressed homeowners avoid foreclosure. There are many studies that support this, including the following:

- Jefferson et al. (2012) HUD study of homeowners who sought foreclosure counseling found that counseling helped homeowners to obtain a mortgage remedy and become current on their mortgages, early intervention matters, and telephone counseling provided an important alternative resource for individuals and communities—particularly those living in areas without an in-person counseling provider.
- Collins and O'Rourke (2011) review 8 prior studies on the effectiveness foreclosure intervention counseling – most show fewer completed foreclosures, and an increased likelihood of loan modification at better terms among counseled borrowers.
- A nationwide Urban Institute study by Mayer, et al., (2010) of the foreclosure mitigation counseling program found that borrowers in foreclosure were 70 percent more likely to get up-to-date on payments if they received the counseling.
- The same Urban Institute study showed that homeowners who received a mortgage modification to resolve a serious delinquency were 45 percent more likely to sustain that modification if it was obtained with the help of counseling.

Time spent with a client is important. A 2008 study by Quercia and Cowan of the Mortgage Foreclosure Prevention Program in Minnesota found that one extra hour improved the odds of the client avoiding foreclosure by 10 percent, and eight additional hours doubled the odds of avoiding foreclosure.

Early intervention is also important. Both the Jefferson et al. (2012) and Collins and Schmeiser (2010) found that borrowers who received counseling in the early stages of default were far more likely to receive a loan modification and/or keep their homes than those who received counseling when they were seriously delinquent or in foreclosure.

Families who participated in foreclosure mitigation counseling were also better able to negotiate modifications that lowered monthly costs. Mayer, et al. (2010) found that the monthly payments of households that received modifications after counseling were, on average, \$267 less than those who received modifications but did not participate in counseling.

Pre-Purchase Counseling

In a recent case study documenting the effectiveness of affordable loan programs that require homeownership education and counseling, the UNC Center for Community Capital (2012) analyzed mortgage delinquency rates for more than 15,000 families who purchased a home

through the Massachusetts' SoftSecond Loan program from 1990 through 2010. They found that these loans performed better than subprime loans and even prime loans in Massachusetts. The reasons for the program's success seem to be strong underwriting supported by pre- and post-purchase counseling for homeowners.

A Turnham and Jefferson (2012) HUD study analyzed the outcomes of pre-purchase counseling clients 18 months after completing counseling and found that 35 percent of the participants became homeowners, with only 1 person falling 30 days or more behind in their mortgage payments.

A review of 10 prior studies by Collins and O'Rourke (2011) finds that counseling provided before a household purchases a home can reduce the likelihood of mortgage delinquency. Most studies have found that pre-purchase counseling leads to positive results, reducing delinquency anywhere from 19 to 50 percent, although one study reported no impact.

Agarwal et al. (2010) analyzed the effect of voluntary counseling on low- and moderate-income households and found that improved loan performance is attributable to the type of mortgage contract, budgeting and credit management skills taught by counselors, and active post-purchase counseling to address early stage delinquencies.

How counseling is delivered matters. A widely cited study by Hiram and Zorn (2001) found that face-to-face counseling was the most effective mode of delivering counseling, resulting in a 34 percent reduction in delinquency for participating homeowners.

Pre-purchase counseling can help reduce the likelihood of default and foreclosure by helping individuals determine if they are ready for homeownership, and by connecting them with safer and more affordable mortgage products. Reid (2006) estimated that 30 to 50 percent of subprime borrowers prior to the housing crisis could have qualified for a prime loan. Prime loans, when well-underwritten to low- and moderate-income borrowers, have much lower default rates than subprime loans made to comparable borrowers according to Ding, Quercia, and Ratcliffe (2007).

Additional research is underway to improve the understanding of the impact of homeownership counseling. Researchers have employed a variety of methods to examine the effects of homeownership counseling but to date have not conducted an experimental trial. Research comparing outcomes for households randomly selected to receive pre-purchase homeownership counseling against control groups of households that receive information without counseling would make a significant contribution to the field. Five such random assignment studies are underway (two are examining different types of pre-purchase counseling and three are testing different types of pre-closing and post-purchase counseling):

- The Federal Reserve Bank of Philadelphia is conducting a long-term study of the effectiveness of pre-purchase homeownership counseling on consumer credit behavior and homeownership. The Reserve Bank has enlisted the assistance of the Consumer Credit Counseling Service of Delaware Valley (CCCSDV) and Abt Associates, Inc. of Cambridge, MA to carry out the study.
- The Department of HUD will also implement a controlled experiment to measure the impact of pre-purchase counseling on a random sample of pre-purchase counselees over

time. HUD will work with large national lenders at the prequalification stage and randomly assign their customers to one of two forms of counseling or a control group that will receive no counseling. Although Congress appropriated funds in fiscal year 2010 to undertake this research, it did not provide any additional counseling funds outside of the usual counseling grant funding.

- Ohio State researchers are conducting an experiment on the Ohio Housing Finance Agency's Homeownership Investment Program where they are randomly assigning 200 moderate-income, first-time homebuyers at pre-closing and post-purchase to receive one of three interventions: online financial assessment only; online assessment and interactive education; online assessment, interactive education, and quarterly telephone counseling/coaching.
- Fannie Mae is conducting two counseling experiments. The first experiment is a post-closing counseling pilot being conducted with the Housing Preservation Foundation, Chase Mortgage Company and CCCS of San Francisco where they plan to enroll 1,000 homeowners each to the experimental group that will receive post-closing counseling up to the 1st mortgage payment and the control group. This experiment is targeting first-time homebuyers who obtain 30-yr fixed, Fannie Mae loans and have greater than 85 percent LTV.
- Fannie Mae is also conducting a post-modification counseling experiment for HAMP clients with CredAbility (formerly CCCS of Atlanta). This post-mod experiment will have 1,500 HAMP clients with no previous record of counseling and a debt-to-income ratio of less than 55 before the modification (to avoid double counseling). This experiment is targeting homeowners who have made one payment on a HAMP trial modification and will assign 500 homeowners to each of the two experimental groups, who will receive either counseling or a phone call reminder to make their subsequent mortgage payments, and a control group that will receive nothing.

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