

HUD HOUSING COUNSELING ASSISTANCE PROGRAM

In the recent budget agreement, funding for HUD's housing counseling assistance program was eliminated in the HUD FY11 budget appropriation. Support for the National Foreclosure Mitigation Counseling (NFMC) program was maintained at \$65 million. While funding for NFMC remains an important source of funding for foreclosure intervention assistance, there are critical differences between the two programs. Unless HUD's housing counseling assistance program is revived, millions of families and seniors who need advice and guidance on finding and keeping their homes will have nowhere to turn.

HUD Housing Counseling Assistance and NFMC - Program Differences

The HUD housing counseling assistance program was developed in 1968 to address a broad range of housing counseling needs of working families and seniors of modest means. It is the ONLY federal program that provides explicit support for households considering purchasing their first home, non-foreclosure post-purchase counseling, renter and homeless prevention counseling, and reverse mortgage counseling for seniors. Since its inception HUD has played a foundational role in establishing the core compliance guidelines and baseline housing counseling standards for the delivery of quality program services. These guidelines also formed the basis of eligibility for NFMC funding.

In December 2007, in response to the foreclosure crisis, the NFMC program was established to address the growing need for foreclosure mitigation assistance for homeowners that could not be met with HUD housing counseling assistance program alone. By its design, NFMC does not address other core housing services, but rather augments HUD's existing foreclosure prevention counseling services with additional funds to address the magnitude and severity of the ongoing foreclosure crisis.

HUD reports that since 2006, HUD counseling agencies provided assistance to 3.9 million homeowners. Of those clients, 1 million were supported through the NFMC program beginning in 2008. While both the HUD and NFMC programs provide foreclosure prevention counseling, the need for services far outpaces the needs both funding sources can support. For instance, it is estimated that between January 2007 and 2009 2.5 million foreclosures were completed and an additional 5.7 million homeowners are in imminent risk of foreclosure.¹

Key HUD-only Counseling Activities

Looking ahead, it is important that we continue to invest in the future success of homeowners and renters to ensure another housing crisis does not occur. The programs supported by the HUD housing counseling assistance programs do just that by focusing on proactive and preventative services such as pre-purchase counseling and non-delinquency post-purchase counseling on topics such as home maintenance and repair. Past research has shown that individuals that receive pre-purchase and non-delinquency post-purchase counseling and education are more likely to make on-time payment on their mortgage and are less likely to default on their loans.²

Additionally, the HUD housing counseling assistance program is the only program that supports senior homeowners to receive federally mandated reverse mortgage counseling. This unique counseling helps older homeowners understand the costs, benefits, and risks associated with these loans that help seniors

¹ "Foreclosures by Race and Ethnicity: The Demographics of a Crisis", Center for Responsible Lending, June 18, 2010.

² Pre-purchase studies: Hiraad and Zorn, *A little knowledge is a good thing: empirical evidence of the effectiveness of pre-purchase counseling* (2002); Hartarska and Gonzalez-Vega, *Credit counseling and mortgage termination by low-income households* (2005, 2006); Quercia and Spader, *Does homeownership counseling affect the prepayment and default behavior of affordable mortgage borrowers?* (2008); Agarwal et al., *Do financial counseling mandates improve mortgage choice and performance?* (2009a, 2009b). Post-purchase studies: Collins, *Exploring the design of financial counseling for mortgage borrowers in default* (2007); Ding, Quercia and Ratcliffe, *Post-purchase counseling and default resolutions among low- and moderate-income borrowers* (2008); Quercia and Cowan, *Does homeownership counseling affect the prepayment and default behavior of affordable mortgage borrowers?* (2008)

convert equity in their homes into income that can be used to pay for home improvements, medical costs, living expenses, or other expenses. Without these counseling programs, seniors on fixed-income would need to pay out of pocket for this counseling and could significantly increase the financial vulnerability of older adults looking to use their home to stay at home.

HUD Housing Counseling Assistance Program & National Foreclosure Mitigation Counseling (NFMC)

The following chart outlines the key differences and program impact between the HUD housing counseling assistance program and the National Foreclosure Mitigation Counseling (NFMC) program.

	HUD Housing Counseling Assistance Program	National Foreclosure Mitigation Counseling (NFMC)
Mission and purpose of program	The HUD Housing Counseling Assistance Program supports the delivery of a wide variety of housing counseling <i>services to homebuyers, homeowners, low- to moderate-income renters, and the homeless</i> . The primary objectives of the program are to improve financial literacy, expand homeownership opportunities, improve access to affordable housing and preserve homeownership.	The NFMC program <i>provides mortgage foreclosure mitigation assistance</i> primarily to States and areas with high rates of defaults and foreclosures to help eliminate the default and foreclosure of mortgages of owner-occupied single-family homes that are at risk of such foreclosure.
Supported counseling activities	<ol style="list-style-type: none"> 1. Pre-purchase counseling & group education 2. Post-purchase counseling & group education 3. Foreclosure intervention counseling 4. Reverse mortgage/Home Equity Conversion Mortgage (HECM) counseling 5. Rental counseling 6. Fair Housing education 7. Homeless prevention counseling 	<ol style="list-style-type: none"> 1. Foreclosure mitigation assistance to homeowners in owner-occupied homes
Accomplishments & impact of program	<p>Since 2006, HUD housing counseling organizations have assisted over 11 million households in the following areas:</p> <ul style="list-style-type: none"> • Pre-purchase counseling & education for more than 2.5 million households of which nearly 600,000 purchased homes or became mortgage ready • Counseling for more than 1.98 million renters and homeless individuals to resolve tenant issues or find shelter • Post-purchase (non-foreclosure) counseling for over 1 million households • Reverse mortgage counseling for over 430,000 senior homeowners • Foreclosure counseling to 3.9 million homeowners (with 1 million funded by NFMC) <p>Numerous research show evidence of lower default rates among individuals that receive pre-purchase and non-delinquency post-purchase counseling. Some programs reduced mortgage default by as much as 34%.</p>	<p>Since 2007, more than 1 million homeowners facing foreclosure have received assistance through the NFMC Program. And the program is effective. An Urban Institute study concludes that:</p> <ul style="list-style-type: none"> • Homeowners are 70% more likely to avoid foreclosure after receiving NFMC counseling • Borrowers who received NFMC counseling and received a loan modification had their monthly payments reduced an average of \$267 more than they would have without NFMC counseling • Counseled homeowners are less likely to default after receiving a loan modification