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SUCCESSFUL HOMEOWNERSHIP AND RENTING THROUGH HOUSING COUNSELING

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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SUCCESSFUL HOMEOWNERSHIP AND RENTING THROUGH HOUSING COUNSELING

Thursday, March 18, 2004

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:04 a.m., in Room 1310, Longworth House Office Building, Hon. Bob Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Miller of California, Renzi, Waters, Velazquez, Lee, Clay, Scott and Davis.

Chairman NEY. [Presiding.] Everybody got quiet before I banged the gavel. What a great group of people. It is because you are in smaller quarters. We could not have the hearing in the regular hearing room so we are here in House Administration, so we are just in a little bit tighter quarters.

Today, the subcommittee meets to discuss the importance of housing counseling, specifically on H.R. 3938, Expanding Housing Opportunities Through Education and Counseling. I would like to thank the gentlelady from New York, Ms. Velazquez and her staff for their hard work and diligence in helping draft this important piece of legislation. I want to thank the gentlelady. We also worked in conjunction with the gentleman from Georgia, Mr. Scott, and we produced a bill designed I think that enhances the counseling programs currently operating through HUD and to foster other private counseling activities which I really firmly believe are so important to so many people.

Currently, HUD laws and various documents show a variety of counseling activities scattered throughout the agency. This year, the Bush administration's budget proposal recommends increasing funding for the housing counseling assistance program to $45 million and funding it through a separate program dedicated to housing counseling. In previous years, counseling was funded as a set-aside within the HOME program. In fiscal year 2005, it is estimated that this $45 million will support 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling. During the previous 3 years, this administration more than doubled funding for the program.

H.R. 3938 will consolidate all HUD counseling services and programs under a single office within HUD entitled the Office of Housing Counseling. The mission of this office will be to coordinate and oversee HUD's many housing counseling programs, to improve the

efficiency and effectiveness of the counseling services provided through the HUD programs. The director of this office will be responsible for the oversight and coordination of both homeownership and rental housing counseling programs.

Today, homeownership and counseling programs take on a variety of forms. Counseling is provided with grants through separately administered programs, nonprofit organizations, government agencies and lenders. The programs offered are delivered through a wide variety of different means, including telephone, classroom, home study, and individual counseling. Information provided and the timing of the counseling also varies I think significantly, but can be generally divided into two separate categories, pre-and post-purchase.

Pre-purchase counseling education prepares families for the responsibility of homeownership by providing information on the home buying and the financing process. Counseling also can include information on financial planning, money management and home maintenance and repairs. Post-purchase includes the above-mentioned items, but often has a greater emphasis on issues pertaining to maintenance and repair and to individual budgeting techniques.

Extending homeownership opportunities to American families continues to be a primary focus of this housing subcommittee. I want to thank the members I mentioned previously, and the two members that have joined us, Mr. Renzi of Arizona and Mr. Miller of California. They have been also great members on a wide variety of issues. Last year, our bipartisan approach to legislation in 2003, and I want to thank everybody, and our Ranking Member, Maxine Waters, on this subcommittee, and of course the full committee Chairman Oxley and Ranking Member Barney Frank.

Last year, our bipartisan approach to legislation in 2003 led to the enactment into law of 11 pieces of legislation out of here, which I think was a tremendous effort. I also want to thank the staff from both sides of the aisle for that.

In December of last year, the President signed into law the American Dream Down Payment Act, which will assist an estimated 40,000 low-income families each year to share in the dream of owning their first home. Critical to increasing homeownership is helping families learn more about the important elements in the purchase or retention of a home, which for people is the most major thing practically that could happen in their lives.

With that, without objection, I have more for the record. I do not want to take up the time of other statements and also the witnesses.

Does the gentlelady have remarks?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Chairman, achieving the American dream of owning a home is unfortunately still out of reach for many hard-working families across the nation. Despite that more than 68 percent of Americans now own a home, minorities still lag behind. Only 50 percent of Hispanic and Afro-American families own a home, as compared to 76 percent of Caucasian families.

The number of foreclosures are increasing nationwide, and are skyrocketing in many local communities. In Queens, New York,

which is part of my congressional district, over 200 families defaulted on their mortgages last year and the foreclosure rate is twice the national average. Housing counseling is not just an important initial step in the process of purchasing a home. It is critical to ensuring that new homeowners know what is on the table and what is at stake when they sign on the bottom line.

In neighborhoods across the country, certified housing counselors are meeting with low-income families helping, them determine if they are ready to purchase a home. They walk potential homeowners through the buying process, clarifying loan terms, fees and costs, as well as their rights and responsibilities. Housing counseling empowers individuals to meet with mortgage lenders knowing what that they have the information they need to successfully purchase and maintain a home for their families.

However, many families caught up in the excitement of purchasing their first home are often ill-informed or misinformed about the loan agreement they are signing. As a result, they end up with mortgage payments they cannot afford and, with alarming frequency, face default or foreclosure. While not a solution to curbing predatory lending, housing counseling is an important part of educating families about all aspects of purchasing, maintaining and refinancing a home.

I want to thank Chairman Ney for working together to draft this bill, which we believe is the first step in strengthening housing counseling services at the federal level. The Expanding Housing Opportunities Through Education and Counseling Act will elevate the importance of housing counseling at HUD. With establishment of the Office of Housing Counseling, the bill consolidates and expands the existing patchwork of counseling-related services under one roof. The director of housing counseling will be charged with strengthening services and ensuring that the agency is providing comprehensive assistance to counseling organizations in all neighborhoods across the country.

The federal investment in housing counseling is critical to local agencies seeking to deliver their services to more families in more neighborhoods across the country. The Expanding Housing Opportunities Through Education and Counseling Act authorizes federal grants to provide a central source of funding to local agencies and not-for-profit organizations. The bill also targets low-income families, the elderly, individuals who face language barriers and other consumers who are more vulnerable to the predatory practices of unscrupulous lenders. This will ensure that these individuals are better prepared for the home-buying process and know the benefits and risks of their loan options.

Today, we will hear testimony from HUD, housing counseling agencies, and lenders. Their testimony will help highlight just how important a strong federal investment in housing counseling is for families in underserved neighborhoods. I look forward to hearing everyone's testimony today and I am sure that it will provide momentum to move this legislation forward and enact it into law.

Thank you, Mr. Chairman.

Chairman NEY. I thank the gentlelady.

The gentleman from Arizona?

Mr. RENZI. No comments here.

Chairman NEY. Thank you.

The gentleman from Georgia, Mr. Scott?

Mr. SCOTT. Thank you very much, Chairman Ney. I want to commend you for the sterling leadership that you have provided on this issue. Ms. Velazquez, it has certainly been a pleasure working with you, and certainly our ranking member, Ms. Waters, for the leadership that she has provided on this issue over many years, and to other members of this committee.

I do not think that there is a more pressing issue today that we can deal with than how we can assist our citizens in first purchasing a home, maintaining that home, and then keeping that home. Our country is plagued from one end to the other with unscrupulous lending practices, with predatory lending, with threats coming from every direction. So much of this is targeted, it is targeted at the most vulnerable people; it is targeted at our senior citizens; it is targeted at our minority communities; it is targeted at those places where people believe that they do not have the information, that they are not armed with the essentials to be able to protect themselves, protect their homes, and make sure that their dreams are manifested.

Throughout my career in the State of Georgia, I have been working on this very important and serious issue. Any of us sitting at this table and in this room that have been familiar with this issue knows that Georgia has been at the forefront unfortunately of so many abusive practices. In many respects, it represents a trend across the nation. One of the things that we have learned has been, one, that an ounce of prevention is worth a pound of cure; and that we must prepare for the storm before the hurricane is raging.

That is why I am so proud to work with this bill because that is exactly what we are doing. We are putting counseling in place. We are putting in a very important feature that I think is somewhat the basis of this legislation, which is a toll-free 800 number. This toll-free 800 number will provide a help-line for many of our constituents to be able to have access to help. We know that this is a targeted activity, so why not try to target the information and target the help-line to those communities. To have a toll-free 800 number where individuals can reach out and call for help, and then to have grants that we can put down to the local community levels, so that groups who have the credibility with many of these targeted groups will be able to get this information to them.

The NAACP, with a sterling history of working in this area, has certainly utilized the grants to work to get the toll-free number. Many church groups, senior citizens groups, AARP, folks that have the credibility of these individuals, and grassroots organizations that can use these grants to get the toll-free number out. We can use it to advertise. We can use it to put this number on radio stations, in newspapers, and those entities where these individuals listen and receive their information.

And then the bottom line, ministers, senior citizens who hold ministers in high regard, can say in their pulpits, before you sign on the dotted line, call this 1-800 number. I think this is going to go a long way to help with a very needed, needed problem.

So Mr. Chairman, I appreciate this opportunity. I want to thank you for letting me work with you. I am especially pleased that we

have put forward a bill with the help of many members on this committee, that we have authored, called the Prevention of Predatory Lending Through Education Act, and Mr. Chairman, you have seen fit to include a number of the features of our bill in this bill. I want to say on the record how much I appreciate that.

Chairman NEY. Thank you.

Mr. SCOTT. As a freshman Democrat coming on the committee, I appreciate certainly the opportunity of working with you, Mr. Frank, Ms. Waters and all of the leadership in a bipartisan way to move this issue forward.

I close my remarks by just recalling the words of Alexander Hamilton, one of the great founders of this country. As we know, Alexander Hamilton founded the cornerstone of our commercial and enterprising activities. He said that a country that remains illiterate of its commerce and handling of its money will not remain free and enterprising for long.

I think that this measure goes a long way to take charge of those words from Hamilton and build on them because, Mr. Chairman, there is nothing more important than getting the information to this needed targeted group, and providing the counseling and the funding to make sure we can put a serious dent into many of these financial abuses by protecting and giving our targeted constituencies the armor to defend themselves. There is no greater armor than education and counseling.

Thank you.

Chairman NEY. I thank the gentleman for his comments.

The gentleman from California, Mr. Miller?

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Ney.

I would like to applaud you for this legislation. I have been involved in the housing industry privately for over 30 years and I have watched the industry change dramatically and the impact on the private sector and how that has really had direct correlations to the cost of housing. Much of the reason for the scarcity of housing and the cost of housing is government and government regulations and processes.

I remember 25 or 30 years ago in California, and California is unusual because about 56.9 percent of the population in 2000 own a home in California. That is more than 10 percent under the national average. But I remember 25 or 30 years as a young builder, I could apply for a tentative tract map and in 58 days they had to say yes or no; 59 days, if they did not act, the government, you were approved by law. Now, with CEQA and the EIR process and the application and the way the law is drafted, your application is not even deemed complete until every 'i' is dotted and 't' is crossed in the perspective of government. What used to be a 2-month process to be able to move forward to provide housing can be a 2-, 3-, 5-, 8-, 10-year process, as you know.

That is extremely disturbing from any perspective, especially from California. We are going to discuss things that I think should be discussed. Predatory lending is huge, but I think we need to move very cautiously because there are individuals out there in society who have less than perfect credit. Borrowers generally understand that if you pose a somewhat higher risk, there should also be reasonable expectations that the fees are going to be somewhat

higher. But there is a huge difference between predatory and sub-prime. I think we are moving in a direction to really make it very difficult for predatory lenders, and understand that if you are a predator, that there is going to be a consequence and a price to be paid.

We need to move gingerly to not impact in any fashion the sub-prime market, because that sub-prime market is absolutely essential and important to homeownership for those who have less than perfect credit, and there are a lot of people in this country who have less than perfect credit for different given reasons and different problems.

But a real concern I have, and I hope you will address this, is RESPA. I worked with Secretary Martinez 3 years ago and I think we were moving I think very well through the RESPA process, the concept of bundling, other ones were thrown out there and debated back and forth, and compromise occurred. I really believed at that point in time we were heading in a reasonable direction on RESPA that would benefit consumers and provide the information that they needed and an understanding of how to best be able to proceed with the acquisition of a home, and clarify all the processes and such.

But I am really, really concerned, and I have always had a great relationship with HUD, as you know. We have never had disagreements. We have always been able to work problems out. But the new process that you are going through really disturbs me because we do not know what it is. All I know is I have a letter here that FTC has come out with and said that the new RESPA reform proposal that they reviewed, which we have not reviewed, could cost mistakenly buyers $400 million and $800 million per year.

Now, I do not know what that breaks down to per applicant, but when we are talking about $400 million to $800 million a year impact on people trying to get a loan because the new RESPA proposal is perceived from their perspective to be vague and ambiguous and could lead people to make the wrong decision rather than the right decision, it really concerns me because I thought we were really off in a good direction. Right now, I do not know if we are off in a good direction or we are off in a bad direction. All we can glean is that from what we are getting it could be concerning. So I hope you would address that.

Again, Chairman Ney, thank you very much for this hearing and I look forward to hearing the testimony.

Chairman NEY. Thank you. I do not know what direction we are in RESPA, period. I know that issue will continue and we will go down the road at some point in time with that.

The gentlelady from California, Ms. Lee?

Ms. LEE. Thank you, Mr. Chairman, and I want to thank Ranking Member Waters for convening this hearing today on this very important issue.

Last year when we were marking up the American Dream Down Payment bill, we discussed and offered amendments to provide not only foreclosure assistance, but also foreclosure counseling to participants in the program of the American Dream Down Payment bill.

Mr. Chairman, one thing that I wanted to just note for the record is that we all recognize that the key to successful wealth-building is comprehensive counseling for both homeowners and renters and also increasing the stock of affordable housing. We were pleased to know that this bill was in the hopper and that this hearing was going to be held today, but Mr. Chairman I wanted to ask you a couple of things, and just mention them in my opening statement, with regard to specifically section six of the bill that requires the preliminary report and study as it relates to foreclosure and default of home loans, and report back within 24 months.

Some States I believe have conducted these studies and I would like to work with you as this bill moves forward to possibly talk about the States that have already conducted studies with regard to default and foreclosures, how we can provide maybe a provision for real foreclosure assistance and counseling in those States so that in fact we do not have to wait for 24 months. People are losing their homes right and left, and I think it would really be very helpful. Yes, the national study, but also, Mr. Chairman, I think it would be an added element to this bill where we can add some real help in terms of foreclosure assistance to those States that already have the studies in place.

I think this is an excellent first step. It will streamline housing counseling services in HUD and I think it is a starting point. I look forward to this hearing and I hope to work with you to try to add some language to this bill.

Chairman NEY. I want to thank the gentlelady. I am assuming you would like to go towards foreclosure counseling and you want to get also some of the state statistics that are out there to find out how many people are losing their homes and what can be done about it.

Ms. LEE. Mr. Chairman, yes, but also some States already have conducted those studies and we know what the issues are and what the problems are. For those States that already have studies relating to this, I would like to provide a provision that says we are going to provide some foreclosure assistance and counseling, rather than just the study.

Chairman NEY. I am sure we will have further discussions on the issue as it progresses.

Ms. LEE. Okay. Thank you, Mr. Chairman. I would like to work with you on that, as we move this bill forward.

Chairman NEY. Thank you.

Ms. LEE. Okay, thank you.

Chairman NEY. Our Ranking Member, the gentlelady from California.

Ms. WATERS. Thank you so much, Mr. Chairman, for scheduling this hearing on the important subject of housing counseling and on H.R. 3938, the bill that you introduced last week with Congresswoman Velazquez and Congressman Scott to expand housing opportunities through education and counseling.

You have assembled large, balanced, and diverse panels of witnesses for this hearing, and I appreciate the care and attention that went into assuring that a wide range of views will be presented here today. I also commend you, Mr. Chairman, for making good on the pledge that you made last year to Congresswoman

Velazquez to work with her on homeownership counseling legislation.

Pre-purchase housing counseling is extremely important to ensuring that consumers are well informed and protected when they evaluate whether, when and how to purchase a home. Post-purchase housing counseling and foreclosure prevention counseling are essential to protecting consumers in times of financial stress. Yet it is critical to emphasize that housing counseling must be supported by strong, effective laws and regulations against predatory lending. Housing transactions are complex, intimidating transactions for many consumers, and counseling will better prepare consumers to deal with the unethical.

We also should emphasize that while homeownership is an important goal for many Americans, there are millions of Americans who choose to rent and will always be renters. We need a balanced approach that recognizes that housing counseling is broader than just homeownership counseling. H.R. 3938 has some very attractive components. It establishes an office of housing counseling within HUD to consolidate and strengthen housing counseling offered by the federal government. It directs that standards be developed for materials used by counseling agencies in providing rental housing counseling and homeownership counseling.

Based on legislation that was introduced by Representative Scott, H.R. 1865, the bill includes a toll-free number and Web site for a listing of housing counseling information. It provides that only HUD-certified housing counseling programs may receive assistance. It also has provisions for multi-media outreach to vulnerable populations at greatest risk of predatory lending, such as seniors, people with language barriers, low-income households, and ensures that all counseling materials and outreach are language and culturally appropriate.

I know that some concerns have been raised about what culturally appropriate materials would mean in this context. I hope that our witnesses will address this issue in their testimony. While H.R. 3938 has many valuable elements, it also appears to me that certain aspects of the bill may require some fine-tuning. Some have raised concerns about the work of the proposed advisory council. It is important to determine what role, if any, such body would play in granting housing counseling funds. I believe that it is important that housing counseling funds be awarded on a competitive basis, and that the advisory council have no role in awarding these funds.

H.R. 3938 also mandates the use of housing counseling software, that is on page 13 beginning at line 15, and carrying over to page 14. This legislation mandates the Secretary to certify mortgage software programs for consumer use and authorizes the development of such mortgage software systems using private sector software companies. During the pilot phase, these mortgage software programs can only be offered in conjunction with counseling by a housing counselor. Following the pilot phase, they do not need to be.

The Secretary is encouraged to make them widely available in public places and throughout the Internet. Thus, while initially the bill would require face-to-face counseling, the door is left open for this software to replace this human contact. Research suggests that

this type of virtual counseling is far less effective than human contact.

The legislation also appears to open the door to groups other than nonprofits and government bodies doing counseling. On page 17, line 10, the legislation authorizes HUD to make financial assistance to States, units of local government, nonprofit organizations and other entities. These other entities could include for-profit businesses, including affiliates of lenders. Given the huge potential for conflicts of interest, if we allow those with an interest in profiting from this industry to provide advice that should be given by impartial groups, we need to proceed with great caution in this area.

Finally, it is worth noting that this bill provides no new money for housing counseling beyond what President Bush has already proposed. We should be discussing the scope of the unmet needs for housing counseling and how best to address those needs.

I look forward to hearing from our witnesses and hearing them examine many of these issues in the course of this hearing. I want to thank you, Mr. Chairman, and if I have to leave early, it is because H.R. 1375, the Financial Services Regulatory Relief Act, is on the floor and I have offered an amendment as you know that would retain the 15-day waiting period after the department of justice has signed off on a bank merger or mergers between bank holding companies. That is important to our consumers and I will have to go up and present my amendment. So if I leave early, it is because of that.

Thank you.

Chairman NEY. We understand. Before you came in, I thanked you and also want to do it again for all your work, last year working with us, and producing I think some good bills, about 11 or so that got to the floor. We appreciate that.

Ms. WATERS. Thank you.

Chairman NEY. Before we move directly on to the witnesses, I did want to clarify to the gentlelady from California, Congresswoman Lee, because you and I had not discussed it previously, but are you talking about, I have no problems with the counseling and also the counseling on foreclosure and looking at what the States have done, but are you talking about grants directly in the bill for foreclosure?

Ms. LEE. That is part of it, Mr. Chairman. When there is a real need, if an individual or family can stay in their house based on 30 days of assistance while they go through foreclosure counseling and restructure their loan or whatever is necessary, then I think we should be able to provide something to tide them over for those 30 days or 60 days.

Chairman NEY. I do not want to mislead you at all. The scope of this bill, and I will work with you on this and I will be glad to talk to you later about that other issue, but the scope of this bill is counseling. I do not know if we could place into here something that directly funds, I am not saying it is not a good issue, but I do not know if it will fit in the counseling bill. I did not want to mislead you.

Ms. LEE. No, Mr. Chairman. I understand that. I just would like to work with you on it. I know under section six we do talk about

the preliminary report that should be submitted to Congress on the root causes of default and foreclosure of home loans. So because this provision with regard to foreclosure is in there, I would like to see if there is any way we can figure that out under that section.

Chairman NEY. Again, I do not think probably in this bill we will be able to go beyond counseling. I do not think we will be able to get into the direct grants, although it is an issue I would like to talk to you about. I think it is something important.

Ms. LEE. Yes. Last year, we discussed this during the markup of the American Dream Homeownership bill, and I think that is a very important issue concept that this committee needs to address, because we could save a lot of homes and a lot of families from being thrown out as a result of a 30-day or a bridge kind of assistance.

Chairman NEY. On the history of this issue, I am trying to recall, has there been a bill or do you have a bill or does anybody have a bill?

Ms. LEE. We had amendments to the American Dream Down Payment bill that would have provided the framework for this kind of assistance. I would like to talk to you about those amendments and maybe turn that into some form of a bill. We talked about this during committee and said we would do that.

Chairman NEY. We will talk later then.

Ms. LEE. Because the point I believe you made at the hearing was that you did not want to tinker with the American Dream Down Payment bill, but most members understood the validity and the necessity to ensure that families stay in their homes. Sometimes it may be necessary just to help them through that 30-day or 60-day period.

Chairman NEY. That is what actually led us here today, because I did not want on the counseling, I made a commitment on the counseling that I did not want to in fact take the counseling issue into that particular area. That is why I just wanted to clarify. I do not know if this bill would be the appropriate vehicle, because it is counseling, of direct grant assistance for foreclosures, but maybe we ought to look at a piece of legislation, or further discuss the issue. I just did not want to mislead you that when I realized you were talking about direct grants, I do not know if this would be the vehicle for it.

Ms. LEE. Okay. No, Mr. Chairman. I understand that. I would just like to look at an appropriate vehicle so we can bring that to the committee because I think the time is now to do that.

Chairman NEY. Thank you. I appreciate it. Thank you.

We will move on to Mr. Weicher. Thank you for being here. He is Assistant Secretary for Housing and Federal Housing Commissioner at the United States Department of Housing and Urban Development, HUD, a post he has held since June of 2001. Prior to his appointment to HUD, Mr. Weicher was the Director of Urban Policy studies at the Hudson Institute and a member of the Millennial Housing Commission.

Welcome, thank you.

STATEMENT OF HON. JOHN C. WEICHER, ASSISTANT SECRETARY FOR HOUSING-FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. WEICHER. Thank you, Mr. Chairman and members of the subcommittee. It is a pleasure to testify this morning regarding HUD's housing counseling programs.

Housing counseling plays a key role in support of the administration's goal to increase homeownership and close the ownership gap between minority and non-minority households. The President's blueprint for the American Dream Partnership establishes a goal of 5.5 million additional minority homeowners by the end of the decade, and specifically recommends educating more people regarding the home buying process to help achieve this goal.

Counseling funds have doubled in this administration and we have requested a further increase to $45 million for fiscal year 2005. We have gone from $20 million to $40 million already and we think this is part of the President's continued commitment to expanding homeownership opportunities in this country.

About half of HUD's housing counseling funds support pre-purchase counseling and homebuyer education. Based on our experience in recent years, we project that the fiscal year 2003 funds will help about 60,000 families become homeowners this year. An additional 140,000 families will continue to work with their counselors so that they will become ready to buy a home during the following year.

The counseling program also helps to ensure that these new homebuyers remain in their homes. About 20 percent of the housing counseling grant funds support the delivery of post-purchase counseling to help families pay their bills on time, perform basic home maintenance and make their mortgage payments. The fiscal year 2003 funds will help about 135,000 families to stay in their homes.

The housing counseling programs accounts for more than two-thirds of HUD's direct grants for counseling. There are only two other programs within HUD that directly fund counseling-related activities. The fair housing initiatives program will devote $3.8 million in fiscal year 2004 for education and outreach grants to nonprofits and the resident opportunities for self-sufficiency program will provide $13.2 million in grants for life skills training, including financial literacy.

In addition, funds from a number of other programs may be used to pay for counseling services, including HOME, CDBG, HOPE VI, Self-Help Homeownership, the SHOP program, and special needs assistance grants for the homeless. The decision to allocate any of those funds for counseling, however, is up to the grantees.

I would like to describe some aspects of the program. To participate, an organization must first be approved by HUD as a housing counseling agency. Approval involves meeting various requirements relating to experience and capacity, including nonprofit status, a minimum of 1 year of housing counseling experience in the community, and sufficient resources to implement a housing counseling plan. We maintain a list of HUD-approved housing counseling agencies so that individuals and families in need of assistance can

easily access the nearest HUD-approved housing counseling agency through HUD's Web site or through our automated 1-800 hotline.

Currently, there are almost 1,700 HUD-approved housing counseling agencies, including over 600 local housing counseling agencies, with another 600 branch offices, and almost 500 affiliates and branches of national and regional intermediaries. The national and regional intermediaries provide and manage sub-grants to networks of affiliated local housing counseling agencies and they also provide training and technical assistance. In addition, 16 state housing finance agencies provide counseling services with HUD housing counseling grant funds.

Every 2 years, HUD performs an on-site review of every HUD-approved housing counseling agency to ensure that their performance is consistent with their housing counseling plan and that they are in compliance with program requirements. Reviewers may provide technical assistance based on their findings and results of the review are factored into grant application scores.

For the past 3 years, HUD has given the AARP Foundation significant funding to develop training and quality control measures for congressionally mandated counseling related to home equity conversion mortgages. The money has supported development of a network of specially trained counselors who are employees of local HUD-approved nonprofit agencies. Based in part on this successful partnership, HUD will soon publish an $8 million housing counseling training notice of funding availability to train counselors, produce training and educational materials on a broad array of housing counseling topics.

Also, we are in the process of procuring an Internet-based client management software system that is designed to improve the analysis of a client's financial situation and readiness for home purchase, and also improve the collection of program-related activity data.

Finally, a draft housing counseling regulation is making its way through HUD's clearance process. This will be the first set of regulations for the housing counseling program. I hope that this overview of our counseling program clearly demonstrates the department's commitment to the program and to the delivery of high quality counseling services across the nation.

This concludes my statement, Mr. Chairman. Thank you again for the opportunity to meet with you today to discuss this important program.

[The prepared statement of Hon. John C. Weicher can be found on page 11 in the appendix.]

Chairman NEY. I want to thank the gentleman for his testimony and move to questions.

Ms. Velazquez?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Weicher, as you know, there has been discussion of creating a mortgage software system to be used to supplement housing counseling services. It has been suggested that HUD could use resources from the working capital fund for such an activity. Could you please clarify whether or not the funding for HUD's working capital fund could be used for the creation of a mortgage software system?

Mr. WEICHER. Ms. Velazquez, very simply, yes it can, and further, we are in the process of doing that. We are in the process of acquiring a client management system. I alluded to this a bit in my statement. We are very excited by this opportunity. We think this will enable us to track the performance of individual counseling agencies more precisely than we can now, and we think it will also enable us to track the outcomes of individual families who receive housing counseling far more precisely than we can now.

We are very excited by this and we hope to complete that procurement as expeditiously as we can. As you know, the continuing resolutions that we have had in each of the last 2 years have complicated, for us in particular, IT procurement. Things have gone more slowly than we would like.

Ms. VELAZQUEZ. Thank you. It is my understanding that current HUD guidelines prevent local nonprofits from combining community development block grant funding and housing counseling funding for housing counseling activities. HUD considers this double-dipping. While this requirement is to prevent organizations from getting paid twice for providing the same service, it severely limits funding sources for local housing counseling agencies. It is also my understanding that CDBG requires rigorous reporting standards to prevent the misuse of federal funds, and therefore the double-dipping guideline is unnecessary. It has been brought to my attention that this issue has been raised to HUD by housing counseling organizations. Can you please explain HUD's thoughts on this issue and how the agency plans on addressing these concerns?

Mr. WEICHER. Certainly, Ms. Velazquez. I think there may be some confusion about our position on this issue. We certainly encourage agencies to seek out and use as many sources of funding as possible. We do not provide all of the funding for any of the agencies which we fund. They have to use other sources besides ours.

However, the issue becomes that funds from two different sources cannot be used to pay for the same service to the same client. And that is a government-wide policy. It is not simply a HUD policy. It is a policy of the federal government. You cannot pay twice for the same service to the same client. I know that from the standpoint of an individual counseling agency this may be a complication in terms of record keeping, but it is a government-wide requirement. It is not simply a HUD requirement.

Ms. VELAZQUEZ. So if we want to change that, then we will have to do it through legislation.

Mr. WEICHER. I believe you will, Ms. Velazquez. It is not something we at the department can change.

Ms. VELAZQUEZ. Okay. Thank you.

As you are aware, it has been proposed that housing counseling services should be consolidated under one roof. The intent would be to create a more efficient system that better meets the needs of counseling organizations and the families that benefit from those services. Can you please comment on what your views are of the benefits in consolidating housing counseling services at HUD?

Mr. WEICHER. Let me start by saying that in each of the last three budgets, we have requested a separate account for housing counseling funding. As you know, the housing counseling program

which I administer is in fact funded as a set-aside in the HOME block grant. The funds are transferred from that block grant to my office for purposes of awarding the funds and managing the program.

We felt all along that housing counseling should have a more elevated position in policymaking. We do have some concerns with the proposal, and Assistant Secretary Roy Bernardi for Community Planning and Development, and I have both testified on this subject previously. We both have expressed concerns that we think a shift in the program operations of this sort would disrupt the service delivery for some period of time. We think it would well be counterproductive.

We have ourselves revised the standards and performance measures relating to the 1,700 HUD-approved counseling agencies that participate in our program. We do not think there is a reason for another office to assume these responsibilities and begin to operate them. We think it is easier and quicker for us to continue to manage our program, and we as I said are over two-thirds of the total direct grants for housing counseling in the department. There are small programs in Fair Housing and in Public and Indian housing for specific clients, for specific purposes. We think they work well enough separately.

Ms. VELAZQUEZ. Mr. Weicher, I have a list here of all the housing counseling programs that I want to make part of the record. Do you think that this is more manageable and that it would allow for you to provide better assistance to those counseling services organizations in our districts?

Mr. WEICHER. Yes, because there are only three counseling programs which directly fund counseling, and our program is 70 percent of it. All the other programs on that list, counseling is an optional use of funding at the discretion of the grantee. That is true for CDBG; that is true for HOME; that is true for the Indian housing block grant. It is all at the discretion of the grantee. In some cases in addition, there is a requirement in a program that someone receive counseling, but there is not a requirement that the counseling be provided with HUD funds.

We have a requirement that any borrower receiving a home equity conversion mortgage should receive counseling before obtaining that mortgage, but we do not make direct grants for that purpose. We leave that to the lender and the buyer to obtain the counseling. It comes down to three programs, and our program is over two-thirds of the total.

Ms. VELAZQUEZ. The foreclosure rate is getting worse, not better, in our communities. It seems something is not working.

Thank you, Mr. Chairman.

Chairman NEY. Your time has expired.

Mr. Miller?

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman.

Whenever I look at legislation, I say how can anybody in the private sector be held liable in court by mistake and oversight on our part. Under the Section 8 updating and simplification of mortgage information booklet, you put out a book on RESPA currently, correct?

Mr. WEICHER. We put out a special information booklet which is to be distributed to any——

Mr. MILLER OF CALIFORNIA. Is that given to everybody who wants to buy a house, they are given a copy of the booklet in the process?

Mr. WEICHER. They are supposed to receive that, yes. We do not ourselves distribute that booklet, but it is supposed to be provided by the lender.

Mr. MILLER OF CALIFORNIA. The concern I have, in my community probably 12 years ago when my son was in elementary school, they spoke 37 different dialects. Among those dialects there were basic differences in cultural backgrounds even. This section talks about preparing a booklet to help consumers applying for federally related mortgage loans to understand the nature and cost of real estate settlement services. It says they have to be accessible to homebuyers of different ethnic and cultural backgrounds.

Now, we can talk about that here and we might think that is very simple. In California, in reality it could be very difficult and complex to do this. How is this information to be distributed once HUD prepares it?

Mr. WEICHER. The information is distributed by the lender. It is to be provided by the lender, by the loan originator, by the broker at the time that the borrower obtains the mortgage. It is intended to be useful to the borrower.

Mr. MILLER OF CALIFORNIA. To a borrower in RESPA, if they do not, what liability do they face for that?

Mr. WEICHER. I cannot tell you what the specific liability is for failure to provide a booklet. I can certainly provide that for the record, but I cannot tell you what the penalty is on that particular matter.

Mr. MILLER OF CALIFORNIA. Mr. Chairman, I would strongly suggest that we try to get an answer to that question and define in this bill clearly that we are not intending to propose a significant impact upon an unintentional mortgage broker or a lender who might not necessarily have the proper information to deal with different ethnic and cultural backgrounds. A lot of people I know specifically in the Muslim community, for example, and in that community even though the dialect is similar, the cultural backgrounds and beliefs are completely different. What is acceptable in one is not acceptable in another. I know certain Muslims, the women are not allowed to shake your hand, because I am heathen, basically. That is the rule.

So this concerns me because I think we are making an effort to do something good, but can we accomplish this and create legal roadblocks for the private sector down the road. I would like to see, at least consider it, I do not know if we can do it here, but consider trying to come up with something to add to this what the intent is and not create a tort issue out there that in the future some attorney is just going to try to make a fortune off some little guy who went out there and tried to help a person get a loan and did not give him or her the proper information based on this legislation.

Chairman NEY. One comment, I would like to take credit for this, but our counsel, Clinton Jones, actually slipped the idea here to me. If you are going in to deal with a broker or anybody that is

dealing with this issue, I do not know if HUD does this now, they all have the computers. Can't this be put on the Web in all languages, you know, Creole, Farsi, Spanish, you name it? It could be put on the Web and then you click it and it prints off and you print one of 50 languages. Is that done now? Do you have things on the Web?

Mr. WEICHER. We have many things translated into Spanish, in particular, and many of them on the Web. I know that in the previous administration there was an attempt to translate some basic material into a number of languages, which proved out in a couple of cases to be badly translated. The department recognizes that if you are going to provide information in other languages, you have to be very careful about the quality of the translation.

Mr. MILLER OF CALIFORNIA. Perhaps we need to also consider in there that if we had that available on the Web, that it is to be supplied to the buyer in what the buyer perceives to be the most appropriate form available. That way the mortgage broker is not responsible if the mortgage broker shows the buyer a list of different languages and information that would be applicable, the buyer has the opportunity to pick one that he or she deems most appropriate for their needs. That way, we remove the liability from the middleman.

Chairman NEY. We will explore the issue because it depends on which area of the country you are in. Florida has Creole.

Mr. MILLER OF CALIFORNIA. I agree. I would appreciate some consideration of that area.

Thank you.

Chairman NEY. On to Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman.

Secretary Weicher, can you tell the committee how many home education programs currently exist in HUD and how currently they are coordinated?

Mr. WEICHER. We have three housing counseling programs. Our housing counseling grants provided by the Office of Housing, which we provide grants to over 400 agencies a year, and they total about $38 million this year. There are only two other programs. There is a $3.8 million program for fair housing initiatives counseling operated by the Office of Fair Housing and Equal Opportunity. There is a $13.2 million program, resident opportunities for self-sufficiency operated by the Office of Public and Indian Housing for residents of public housing. Those other two programs are both small, targeted to specific clienteles for specific purposes. Our program is the only general housing counseling direct grant program in the department.

There are a number of other programs where funds can be used for counseling, but they are to be used at the discretion of the grantee. In the cases of CDBG, they are to be used at the discretion of the city or county that receives the funds. That is also true in the case of HOME. Funds are available in the Indian housing block grant and can be used in the Indian housing block grant for that purpose. But funds do not have to be used for that purpose in any of those programs. It is at the discretion of the grantee. So the Office of Housing provides over 70 percent of the funds for housing counseling that the department provides in the form of direct

grants, and we operate the only broad national housing counseling grant program in the department.

Mr. SCOTT. So we are setting up in this legislation a new Office of Housing. How will that help you coordinate these programs?

Mr. WEICHER. As I was saying, it is not clear either to me or to my colleague, Assistant Secretary Roy Bernardi, that a new office is necessary for the management of our counseling grant program. We have only the one broad program which I now manage, and we have the two smaller grant programs which are managed in separate offices because they have separate purposes. These programs all run effectively, and we think that the transitional costs of combining management of all three programs into one office is not really likely to yield substantial benefits and is likely to have costs during the period of transition.

Mr. SCOTT. Okay. Let's look at section three and section four here which I think are the heart of this legislation, the counseling procedures and the money. Let's take one of these, and work with me here on how you see this working in this new department. Let's look at the toll-free number and the Web site. Let's see how we tie that to the granting at the local level and then secondly, is $45 million sufficient to do some of this.

I happen to believe that one of the most critical needs in dealing with this whole issue for our constituency is beating the predatory lenders to the punch and giving our folks out there some help. So we have this 1-800 number. It is coming to you. How do you envision this new office handling this 1-800 number?

Mr. WEICHER. We have a 1-800 number now, as well as a Web site, and the number is 1-800-569-4287. A caller who uses that number is prompted to enter a zip code, select the type of counseling service needed from a menu, and the system will provide the caller with the names and the phone numbers of three agencies that offer these services that the caller wants in the caller's area.

On the Web site, we provide a list of all of the HUD-approved housing counseling agencies, categorized by state, then categorized by city in alphabetical order, listed by name. The Web site has the name of the organization, the address, the phone number and the types of counseling services provided.

Mr. SCOTT. Mr. Weicher, could I ask you one question.

Mr. WEICHER. Certainly, Mr. Scott.

Mr. SCOTT. If it is clear that the people who need the help the most are elderly, one of the very reasons why they are so vulnerable and why we have this problem is that they do not have the sophistication. Don't you think it would be helpful if we had a 1-800 number and that we targeted this 1-800 number using some of these grants to get that number targeted to these elderly folks who simply want to be able to dial the phone number and get a human being, get somebody on the phone that they could talk to. Don't you think that would be helpful? I mean, if they call a 1-800 number and they get a recording, they get a lot of confusion, and they get a Web site, we are dealing with people who we want to help the most, but people that if we get this 1-800 number to them, we want to get them to talk to a human being. What is it going to take for us to get that?

Mr. WEICHER. I think that the 1-800 number that we have now tells you what counseling agencies are available in your neighborhood, in your community. I think that information can be provided either on an automated basis or by an individual answering the phone, but I think that over the phone that really is about all the information that can be provided by a single 1-800 number. An elderly person calling and asking for help on a home equity conversion mortgage or a problem with a predatory loan will obtain from the 800 number or from the Web site the names, addresses and phone numbers of organizations which can provide help to them on their specific concerns. We believe that works reasonably well. We do think that process works.

We yield to no one in our opposition to predatory lending. I testified before Senator Craig in the Senate Committee on Aging about 6 weeks ago on the activities that we have taken at FHA to combat predatory lending in our FHA insurance program, which is the only place that HUD has direct authority to combat predatory lending. We have been aggressively pursuing that with literally half a dozen rules which we have put out as final rules in this administration and we continue to work on that problem.

Chairman NEY. If I could, the time has expired and I have no problem coming back, but I think Mr. Renzi has a commitment, so if we can get him into the questioning, and then we will come back.

Mr. Renzi?

Mr. RENZI. Thank you, Mr. Chairman.

I represent a district where actually I actually represent more Native Americans than anyone else in Congress that has one single district that is not a whole state. While I am not in favor of growing government, I would applaud Mr. Scott's comments. I do not care if you have to add 100 people in this new office, if it takes that to reach out to particularly Native Americans who are the lowest of all minorities in the country as far as homeownership goes.

In the Indian housing block grant program you have the ability on an optional basis to spend money for counseling. Can you help me understand that optional basis, please?

Mr. WEICHER. I am not an expert on the Indian housing block grant. It is managed by my colleague, Assistant Secretary Mike Liu, the Office of Public and Indian Housing. I do know that counseling is an eligible activity in that program as it is in our other block grant programs. It is an eligible activity at the discretion of the grantee. I do not know to what extent the recipients of that block grant choose, the tribes choose to devote funds to counseling. We may be able to provide you with that information for the record, but I do not know that myself.

Mr. RENZI. One of the things that I commend Mrs. Velazquez for teaching me when I first came on this committee was, many times first generation Americans trying to go to college and have their sons and daughters enter into the university system, the first impediment they meet is the application process. Of course, that is the same that we are seeing here as it relates to housing. For the first time, generations and generations of Native Americans who live on sovereign land do not even have the concept of a modular home. So they are having to break through cultural barriers in

order to embrace the benefits that homeownership have that we have all seen.

In the area of funding and the formula as it relates to Indian housing block grants, and again this is not so much counseling, but I have you in the door and since we opened it up, you know we are going through a tough time here as far as what kind of funding and everything, that housing will take in the block grant program. Many times, those monies are spent, are allocated to individuals in the census who check that they are Native American in their blood. They might live in Chicago, but because they checked the box that they are Native American, those monies that are specifically intended towards tribes or sovereign lands are then diverted into even inner-city areas.

While I do not want to be a person who impedes their ability to get monies, there has got to be a focus as to how much money is being diverted away from the tribes, and the monies that are really needed on the reservation. The conditions on the Navajo Nation's 18 million acres are absolutely deplorable. You do not have to go to Africa. You do not have to go to the third world countries to see poverty like we have on the reservation.

So I would just, since I had you in front of me today, I wanted to take the time to ask you to look at that. In my final couple of seconds here, could you just go ahead and expand upon any kind of HUD programs or any kind of counseling programs that you see that are going to really help Native Americans? Thank you.

Mr. WEICHER. Let me say, Mr. Renzi, that I am not an expert on Indian housing and I do not manage the Indian housing programs at all. I certainly do not manage the Indian housing block grant. I do know that my colleague, Assistant Secretary Liu, spends a great deal of time addressing the Indian housing issues, and indeed has been much involved personally in the development of the formula for allocating funds under the Indian housing block grant. I know he spent a lot of time on that earlier this calendar year.

What I can certainly do is express your concerns to him and I will certainly do that. I cannot tell you how that block grant program works. I cannot tell you of my own knowledge. We can certainly provide information for you for the record from the department. I can do that.

Chairman NEY. Thank you.

The gentlelady from California, Ms. Lee?

Ms. LEE. Thank you, Mr. Chairman.

First, thank you, Mr. Secretary, for being here. Let me just ask you a couple of questions about the current housing program, given the fact that we have such a high rate of foreclosures and of course cases of predatory lending. How effective are these existing housing counseling programs?

Mr. WEICHER. We think they are effective. We track performance of clients in various kinds of programs in a number of ways. I can provide you with very detailed information for the record, but I can say, for instance, that the agencies which we have funded have provided help to clients who are trying to avoid a mortgage delinquency or resolve a delinquency without going to foreclosure. The HUD funds that we have provided have been successfully used to

avoid foreclosure in 90 percent of the cases, here I am using data based on fiscal year 2002, in 90 percent of the cases where there has been a conclusion to the person's concern, foreclosure has been avoided.

Here we are dealing with people who are at serious risk of foreclosure. To start, there are a lot of families for whom we do not know at the end of the year whether they have successfully avoided foreclosure. The jury is still out. We do not know the end of the situation.

Ms. LEE. So you have not done any national studies?

Mr. WEICHER. Yes, we have tabulations of outcomes in a number of aspects, and this I think is a good indication of the effective use of our funds. It is also I think a good indication of the effectiveness of the housing counseling agencies who receive our funds and use our funds and other funds as well, to provide help. I think the funds are used effectively for the important purposes of keeping people in their homes and helping people buy homes.

Ms. LEE. So you have the raw data, but you do not have the compilation of this data into any studies that would show us how effective these programs are?

Mr. WEICHER. I can provide you with the tabulations. There are a number of studies which have been done. Two economists at Freddie Mac did a study 3 years ago looking at Freddie Mac's data and measuring the effectiveness of counseling. There is a study done by The Ohio State University where I used to teach, not done by me, but done by The Ohio State University which shows the same pattern. I do not think there is any question about the effectiveness of housing counseling. We track it in our own program, in the FHA programs as well, and we know that counseling is effective in preventing foreclosure.

It is on the basis of that research that the administration made the decision to ask Congress for additional funding for counseling. We started with a $20 million appropriation at the beginning of this administration. We have gone to $40 million with Congress acting favorably on our request, and we are now asking to go to $45 million.

Ms. LEE. Okay. Given the number of assistance programs that you have, what do you think the impact would be if all of these counseling assistance programs were under one umbrella or were consolidated, streamlined, and that office, for example, takes responsible for really executing and maintaining these programs?

Mr. WEICHER. There is only one direct grant program that provides housing counseling and that is the program I administer. That provides over two-thirds of the funding that the department has for housing counseling. There are only two other direct grant programs in the department. They are both much smaller and they both have very specific purposes. One is the Fair Housing Initiative grants for fair housing counseling, and one is the Resident Opportunities Self-Sufficiency Program for residents of public and Indian housing. One is managed by the Office of Fair Housing, the other by Public and Indian Housing. They are both small and they both have very specific purposes.

The list that I know CRS has provided is largely a list of programs in which funds may be used for counseling at the discretion

of the grantee. Unless you change those programs, unless you change CDBG or the Native American housing block grants, the decision to spend money on counseling rests with the grantee.

Ms. LEE. I see. May I just quickly have an additional 30 seconds, Mr. Chairman?

I just wanted to ask you about creating more affordable housing in terms of the housing production initiative, given the mission of HUD in terms of its goal to provide more affordable housing for everyone. How do you see the establishment of a national housing trust fund? We have had the bill here in committee. We have talked about it. We have support throughout the country, but somehow it just goes away. I am just wondering what your thoughts are on that.

Mr. WEICHER. I have seen a number of proposals to use the reserves, the net worth of the FHA mutual mortgage insurance fund for a national housing trust, and those funds are the reserves that we use to pay claims when we have foreclosures. We certainly do not believe that the funds that FHA has collected from moderate income home buyers as part of a mutual mortgage insurance fund should be used for other purposes.

Ms. LEE. About how much is in the reserves now? Do you know?

Mr. WEICHER. The reserves are about $22 billion.

Ms. LEE. $22 billion?

Mr. WEICHER. At this point, yes.

Ms. LEE. So just taking maybe $2 billion a year to create more affordable housing would impact this fund?

Mr. WEICHER. Yes. Those reserves are to pay the costs of defaults, the cost of foreclosures. We have built them up through effective management of the program and we do our very best to minimize foreclosures and minimize losses on the foreclosures, but these are the reserves.

Ms. LEE. No, I understand that, but I am just saying on the reserves, if we took $3 billion, $5 billion, left the reserve fund at $15 billion, that would create a major impact in the ability to use the reserves in the way——

Mr. WEICHER. It would put the fund at some risk that we do not believe that there is any purpose in putting the fund at that risk.

Ms. VELAZQUEZ. Would the gentlelady yield for a second?

Ms. LEE. May I yield, Mr. Chairman?

Chairman NEY. Ms. Lee, the time has expired.

Ms. VELAZQUEZ. Just a quick question. Sir, out of the $20 billion reserve, what is the default rate?

Mr. WEICHER. The default rate is not measured against the reserve. For a given book of business, we expect to have about 8 percent of the loans, the book of business being the loans underwritten in one year, we expect to have about an 8 percent claim rate over the life of that book of business, and we expect most of those claims to occur between about the third year and the fifth year after the loan is originated. After that, people have equity in the home and they are well established and they know how to do it.

So we believe that the funds that we have are appropriately maintained for the MMI fund and we do not really see the public policy advantage of taxing moderate income first-time home buyers

for the provision of housing for other people through charging premiums on the MMI fund.

Chairman NEY. The time has expired.

I want to note, the default rate is 12 percent?

Mr. WEICHER. I am referring to the FHA. Over the life of a book of business, the loans we underwrite in any year, over the life of that book of business those loans will default, about 8 percent of those loans will default, and most of them will default in the first 5 years.

Chairman NEY. There was an article in the New York Times and the Journal of 12 percent. So you are all saying 8 percent.

Mr. WEICHER. The New York Times was talking, what is commonly looked at is the default rate right now, and the default rate is higher during economic downturns, and the default rate tends to peak after the economy has turned up because people do their best to hang onto their homes when they become unemployed, so they avoid losing their home as long as possible. Typically, that means that some of the people who do not run out of resources after the economy as a whole has turned up, but their own position remains negative. We have seen this in every economic cycle back for 30 years.

Chairman NEY. I think it is 12 percent, but I will move on to Mr. Clay.

[Laughter.]

Mr. WEICHER. But not in our program.

Mr. CLAY. Thank you, Mr. Chairman, for allowing me to claim my time. I appreciate that.

Chairman NEY. We appreciate your patience.

Mr. CLAY. Let me follow the same line of questioning of Ms. Velazquez and Ms. Lee. You know, Mr. Secretary, when people sign paperwork on predatory loans, they often do not understand what they are signing. Does your counseling program provide legal assistance to homeowners that enter into predatory loans? I would think that should be a point of any comprehensive counseling that your department provides.

Mr. WEICHER. Yes, we do. The counseling agency may provide legal assistance directly or may refer the borrower to legal aid or to an organization which specializes in legal assistance, but that is one thing that happens for those borrowers who appear to be victims of predatory lending. Yes, that happens.

Mr. CLAY. Okay, so if we change that setup and you go to a software program instead of a one-on-one session with a trained housing counselor who can really review the paperwork and figure out if there are alternatives available to those people seeking counseling, how does that help this situation?

Mr. WEICHER. That is not what we are doing. The software program that Ms. Velazquez asked about is a software program which enables us to track the performance of housing counseling agencies and the experience of their clients much more specifically, much more directly than we are able to do now. It relates to Ms. Lee's question about what kind of data we have and what the data shows. We are not proposing to replace any one-on-one counseling with a software program. The software program is an information

tool for us and for the agencies that receive our funds. It is not a software counseling program.

Mr. CLAY. Does that mean that when someone calls, will they speak to a person or speak to a machine? That can be frustrating, I know.

Mr. WEICHER. Our 1-800 number is intended to direct you to a counseling agency. The counseling agency that provides you with help is providing you help through one-on-one counseling or perhaps through group counseling, but the counseling is being provided by human beings.

Mr. CLAY. Okay. Along the same lines that others have asked you today, help me and describe the effectiveness of the post-homeownership counseling. Has your department been able to stave off foreclosures and keep families in homes? Along with that, should local communities that receive the grants and CDBG funds be required to provide counseling? You stated earlier that it was discretionary. Being from St. Louis, Missouri, I realize how local communities can abuse the CDBG funds. It happens every day in my community, where they go for unintended purposes. So should that be part of any law, that we require these local communities who receive these grants to provide the counseling necessary?

Mr. WEICHER. I think there are two questions there. Let me take them in the order in which you asked them.

We know that of those counseling clients who come to our counseling agencies and are trying to avoid losing their home, we know that 90 percent of them are successful in keeping their home. I think that is a good performance. With respect to requiring counseling in the CDBG, the rationale behind the CDBG program for the 30 years since it was enacted has been that the decision on how to use the funds should be left to the local government, the county, the city, the rural community that receives funds through the state CDBG portion. It becomes up to them to decide which purpose of the purposes of the funds are the most important to them.

If you have abuses of funds, that becomes an issue for the HUD office of inspector general and perhaps the Justice Department, but it has not been our view and I do not think it has been a very popular view that CDBGs should be earmarked for specific purposes, rather than being left at the discretion of the local government to decide what is the most important local purpose.

Mr. CLAY. You find local governments abusing funds every year.

Mr. WEICHER. I am sure that is true. I think the abuses should be considered separately from the question of how the program is organized. There are abuses in categorical grant programs as well. It is in all of our interests to combat those abuses.

Mr. CLAY. You have broad guidelines now in CDBG funding, so to make this a requirement you would see it to be problematic?

Mr. WEICHER. I think I would like to defer to Assistant Secretary Bernardi who runs the program, but certainly our view has been that the program, and the view of I think all previous administrations has been that the program is intended to provide funding for local governments to make local decisions as to what they need. It came after a very unhappy experience with a number of categorical programs, most notably urban renewal.

Mr. CLAY. Okay. That is a subject for another hearing, but I thank you for your answers.

Chairman NEY. Would you like some extra time, Mr. Clay?

[Laughter.]

I feel bad. That is why I am offering it. We will have some other rounds here. I have one quick one and I will yield to any question you have.

The one I wanted to ask about is, you were talking about the success of the pre-purchase housing counseling. Do you collect data on that, the number of people who were counseled and it was a successful situation for them?

Mr. WEICHER. Yes, we do, Mr. Chairman. We can certainly provide that information to you for the record. As I said, I think to Ms. Lee, we have a very detailed tabulation. Of the families who received pre-purchase counseling last year, we count 150,000 families, of whom 30,000 bought a home; 70,000 are continuing the process of counseling with the clear expectation that they will be buying a home this year; and 10,000 decided not to buy a home, which is fine, too. It is one way of avoiding making a mistake. As a result of the counseling, they decided that they really were not ready to buy a home or this was not what they wanted to do.

So a large number of families who received homeownership counseling either buy a home or are about to buy a home. The data stops at the end of that fiscal year. We think it is a successful program.

Chairman NEY. What I will do, because we have two more panels, and Mr. Davis has yet to ask a question, I will just put some things in writing to you. I want to look at ways how we measure the effectiveness of the programs we have and the counseling.

Mr. WEICHER. I would be glad to respond.

Chairman NEY. Thank you.

Mr. Davis?

Mr. DAVIS. Thank you, Mr. Chairman. I appreciate the Chair letting me sit here. I was not sure which would upset Ms. Waters more, seeing me on the Republican side or in her seat.

[Laughter.]

Chairman NEY. We could talk about sitting you over there if you would like to.

[Laughter.]

Mr. DAVIS. At least we would get a roll call tomorrow.

Let me, Mr. Weicher, pick up the spirit of the last round of questions you have been asked about predatory lending. One of the things that is always very striking to me is that obviously we would expect to find a fairly active sub-prime market in low-income communities. I suppose that is the purpose of the sub-prime market. One of the things that is really striking to me, though, is that as I understand the statistics, the incidence of sub-prime lending is double in affluent black communities what it is in low-income white communities. That, I think, is a significant thing that we ought to very much try to get a handle on. I hope that your program is able to address some of those disparities.

Let me ask you, what can your counseling program do to proactively seek out upper-income black homeowners who for whatever reasons are still being steered into the sub-prime market? Do

you recognize that as a problem and what does your program do to specifically get at that concern?

Mr. WEICHER. Mr. Davis, I believe that next week I will be testifying in front of this subcommittee on two program initiatives that we and FHA have in this year's budget to create more opportunities, particularly for minority families, to buy homes with FHA-insured mortgages, and also for families which now own homes which have sub-prime loans, to refinance into FHA mortgages. We think both of those initiatives will go far toward addressing the concern that you raise. This is we think an important program initiative, and I very much hope you will be here next week, on either side of the aisle.

Mr. DAVIS. I will be on this side of the aisle.

Let me try to ask a slightly more pointed question than that. How do you structure a counseling program to not just reach people who are low income and who recognize that they have problems buying a home? That is an obvious target group for you to reach. I am sure there are fairly easy ways to reach them. How do you take it a step further, though, to proactively reach what may be affluent, but discriminated-against homeowners who may be African American or Latino, Puerto Rican? How do you go about telling them about the sub-prime market and the potential abuses in the sub-prime market? Is there anything in this counseling program that can really aggressively reach out to target not just your easy group of people to reach, the low income, but maybe some of your higher income individuals who still may be affected?

Mr. WEICHER. I am not quite sure I would agree that it is easier to reach low-income people than it is high-income people, but setting that aside, there are two things here. Our program is intended to serve anyone who wants to buy a home. Our counseling agencies are prepared to help anyone who wants help. When we get into concerns about discrimination, that is where the program that I mentioned, one of the other two grant programs in the department, the Fair Housing Initiatives counseling program, comes into play as well. If there is a case of discrimination, that is something that they are prepared to help with.

I can provide you for the record with the income levels of the individuals who we have helped last year. I cannot tell you what that looks like right now.

Mr. DAVIS. Let me ask you one final set of questions on a different topic. There has been some concern that has been raised around what happens in the context of apartment owners. Can you clarify for me exactly how this program is going to be administered for people who are living in apartments?

Mr. WEICHER. About 20 percent of the funds that we have for counseling are in fact used to provide rental counseling; provide counseling to individuals who either have problems where they are renting or are looking for help and advise in how to rent and what to look for.

Mr. DAVIS. Who does the counseling?

Mr. WEICHER. It is the same agencies. It is the same set of agencies. Some agencies will specialize more in homeownership counseling; some will specialize more in rental counseling; some will do both. But we make grants to agencies which are providing coun-

seling assistance, housing counseling assistance, which may be homeownership counseling, buying a home, maybe keeping a home; maybe renting a home. We provide funding and our agencies provide assistance to people with any of those problems, and indeed there is homeless counseling in there as well.

Mr. DAVIS. Okay. Mr. Chairman, I think my time has expired.

Chairman NEY. Thank you.

Ms. Velazquez and then Mr. Scott.

Ms. VELAZQUEZ. Mr. Weicher, according to the U.S. Census Bureau statistical abstract the number of homes in foreclosure in the year 1980 was 114,000, while the number of homes in foreclosure in the year 2001 was 555,000. This is an increase of over 250 percent. Yet even this statistic masks the more dramatic increases in foreclosures in some neighborhoods; cities such as Philadelphia and Chicago, where the foreclosures have tripled in recent years, and in New York it is twice the national average. Are those numbers alarming to you? What do you have to say to those 555,000 people who lost their homes?

Mr. WEICHER. I think with respect to the comparison over time, in 1980 we had experienced a long period of inflation which had resulted in substantial increases in house prices and made it for those people who owned homes much easier to avoid foreclosure. We have a significantly higher homeownership rate now than we had in 1980, and that means that we can expect there will be some more foreclosures for that reason as well. In 2001, we were in the recession that started at the end of 1980, and we will have higher foreclosure rates in a recession than we have in a period of good economic experience.

That being said, we certainly are not happy when people lose their homes. We have a very active loss mitigation program in FHA where we require lenders to offer loss mitigation to families who are at risk of losing their homes. In the last 2 years, we have had as many families in loss mitigation as we have had foreclosures. Of those families who have loss mitigation, more than half of them have brought themselves current on their loan and avoided foreclosure within a year. That is an extremely important activity and it is something we are continuing. We monitor that. We monitor the performance of our lenders both in offering loss mitigation and in avoiding foreclosure.

Ms. VELAZQUEZ. Given the high percentage of foreclosure, are you contemplating putting more funding into the prevention of foreclosure?

Mr. WEICHER. This is something that is addressed in the notice of funds availability. We want a balance between promoting homeownership, preventing foreclosure, providing rental counseling, and to some extent that is at the discretion of the counseling agencies, which know what their clients, what their communities need. To some extent, it is based on guidance that we will provide as well.

Certainly we believe in promoting homeownership, and we also know that it does not do anybody any good to put them in a home which they are going to lose in a couple of years through no fault of their own.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman NEY. Any other questions?

Mr. SCOTT. Two very quick ones here. The first question, I do not want you to leave without answering this. What is your opinion of this legislation before us?

Mr. WEICHER. As I believe I said earlier, we certainly applaud the purpose of the legislation. We have asked Congress, asked the Appropriations Committee to create a separate account for housing counseling and take it out of the home block grant. We do believe that the program that we have operates well. The program that I operate constitutes the large majority of the housing counseling grants that HUD makes. We do not really see a particular advantage to consolidating the three grant programs that we have into a single agency, since they serve different purposes and have different clienteles. I do know from my own experience that a reorganization within the department takes time and resources, and can be a complication while it is going on. I would be glad to try to explain it more thoroughly if you would like.

Mr. SCOTT. Well, you are aware of a serious problem that requires our attention, that is going to require us to do more draconian measures to try to get at, to stop much of the abuses that are happening there. It is clear that there needs to be improvement in specific areas. Of course, the reason I asked you that question was, when I asked you the previous question about just one simple application of this new bill that we are pushing, which was the application of the toll-free number, clearly mandates that a toll-free number be established and that it be operated and that it be language-friendly, and that we have these other programs implemented so that it reaches these targeted groups of low-income senior citizens and so forth.

In other words, this bill goes to the heart of the matter of getting at it. We must have a corresponding attitude within this administration than when help is coming, it needs to have a receptive nature, or else we will be forced to have to deal with more draconian measures of which mortgage bankers, mortgage banks, legitimate operators who are not in these activities, get caught up in this net.

So it is my hope that as a result of this hearing, that HUD will go back and understand that this bill is vitally needed; that we need to get programs and outreach out there that target this; and currently what is being done is not getting the job done.

Mr. WEICHER. Mr. Scott, we are the administration which has requested a doubling of housing counseling funds in the first 3 years and a further increase this year. We know housing counseling is important. We have made a point of requesting Congress and Congress has granted additional funds to support housing counseling. We have asked for a separate account in the budget for housing counseling which we believe would be valuable as well.

Whatever abuses you are aware of or problems you are aware of in the performance of specific agencies, please let us know. We believe that the agencies are doing a good job. We believe that the funds that are being spent are helping people who need help now. They are helping them to buy homes. They are helping them to avoid foreclosure. They are helping to find and maintain and continue to live in decent rental housing. We think the program works well. It can always be improved, but we believe the program works

well. I really would like specific examples of the problems that you allude to and I will address them if it is at all within my authority.

Mr. SCOTT. Well, they are all over the place. They are in the news daily. We hope that as a result of this hearing that we have taken this opportunity to share with you the need for this, and this is the whole genesis of this counseling bill that we are putting forward. We look forward to working with you on it and receiving it, and making this an integral part of not taking what you are doing, but adding to it and making it a collaborative effort. But clearly and surely, we must get programs directly to these targeted groups, or else failing this, will come more draconian measures that many of the industries will not like.

So it is my hope that you will be, and HUD will be very receptive to this bill and work with us to get it through, and that you will implement it and follow through with the directives in the legislation.

Chairman NEY. Additional questions?

I want to thank you, Mr. Weicher for your time today.

Mr. WEICHER. Thank you, Mr. Chairman.

Chairman NEY. We will move on to panel two if we could. Could I remind you as you speak to please turn the mikes on. We will start with panel two, Mr. Kenneth Wade, executive director, Neighborhood Reinvestment Corporation. We want to welcome you here today. You are the new executive director of the Neighborhood Reinvestment Corporation. The corporation is a national nonprofit organization created by Congress 25 years ago to develop effective systems of public and private sector support for community revitalization efforts. The corporation supports a network of more than 220 locally based affordable housing and community development organizations.

The next witness will be introduced by Congresswoman Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

I would like to take this opportunity to personally welcome and introduce Lisa-Nicolle Grist, the executive director of Neighbors Helping Neighbors, a community-based housing counseling agency in my district. Neighbors Helping Neighbors serves tenants, homebuyers and owners of small properties and small businesses. The agency, which was founded by community residents in 1990, helps tenants retain and improve their homes, succeed in purchasing affordable first homes, and repair their homes and resolve mortgage delinquencies.

The critical housing counseling Neighbors Helping Neighbors provides, and their leadership, has a huge impact on the families they serve. I appreciate your coming here to share the experiences you and your staff have had working with families in Sunset Park and Park Slope, Brooklyn.

Thank you and welcome.

Chairman NEY. We also want to welcome Lautaro Diaz, the deputy vice president for community development of the National Council of La Raza, a national Hispanic advocacy and research organization. La Raza seeks to improve opportunities for Hispanic Americans by supporting and strengthening local Hispanic groups. We want to welcome you.

The next witness is Mr. Rodney Jordan, vice chairman of the Norfolk Redevelopment and Housing Authority in Norfolk, Virginia. We want to welcome you also.

The next witness is Gary Obloy. He is from the great State of Ohio and the greater county of Belmont and the even greater city of St. Clairsville, which happens to be my hometown. So I have known Gary Obloy for a long time. He is executive director of Community Action Commission of Belmont County in St. Clairsville, Ohio. I personally know about the contributions that he has made and the commission and the people that they have helped in our county and its low-income residents, and the more than 25 federal, State and locally funded programs that it manages. So it is a pleasure to have you here today, Gary.

The last witness will be introduced by Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman. We are delighted to have Mr. Chapman Walsh from the Green Forest Community Development Corporation in the great State of Georgia in my district. Mr. Walsh was appointed director of the homeownership program, the Green Forest Community Development Corporation in 1999. Prior to that, he served as the coordinator from 1997 to 1998.

Just very briefly, Green Forest Community Development Corporation is a private nonprofit faith-based community economic development corporation created by the Green Forest Community Baptist Church of Georgia.

Good to have you with us. Thank you.

Chairman NEY. Thank you very much. We will begin with Mr. Wade.

STATEMENT OF KENNETH WADE, EXECUTIVE DIRECTOR, NEIGHBORHOOD REINVESTMENT CORPORATION

Mr. WADE. Good morning, Chairman Ney and Representatives Velazquez and Scott. I am pleased to be here today. As was commented earlier, I am the executive director of Neighborhood Reinvestment. I am here today to share our achievements in the housing counseling area.

While I am new to the executive director role here at Neighborhood Reinvestment, I have been with the corporation for 13 years, serving in a variety of capacities. Prior to becoming executive director, I was our director of National Programs. In that role, I oversaw our homebuyer education counseling efforts. So I am particularly proud to be here to share with you the accomplishments that we have achieved.

We are authorized by the House Committee on Financial Services. We thank you for your continued support. NeighborWorks is over 220 community development organizations nationwide providing housing counseling and promoting neighborhood revitalization in 2,500 urban, suburban and rural communities, such as an organization you will hear from a little later today, Neighbors Helping Neighbors. We also work very extensively with HUD as they serve on our board, and we are one of the intermediaries that HUD funds in the housing counseling arena, and we do work with a number of the other panelists that you will hear from today in a number of capacities. Over the last 10 years, the NeighborWorks

Campaign for Homeownership has set national standards for pre-purchase homeownership counseling. NeighborWorks has established a 5-day training and certification course for housing counselors. With the committee's support, NeighborWorks has certified more than 3,000 counselors nationwide. And the NeighborWorks network has provided housing counseling to nearly 500,000 families.

NeighborWorks does this by creating a system that effectively educates low-income customers about the home buying process. This system, known as Full Cycle Lending, includes pre-purchase counseling, flexible loan products, and post-purchase counseling. Essentially, here is how it works. All the potential homebuyers receive a minimum of 8 hours of group counseling with follow-up individual counseling. In addition, NeighborWorks housing counselors are certified by completing a 5-day home buyer education methods class at our national training institute, where they are also required to pass an exam. In addition, NeighborWorks uses the widely endorsed Realizing the American Dream curriculum, which I would like to submit for the record today.

Because of these high standards, families across the country from Ohio to Queens, New York to all the communities you represent have received over 4 million hours of counseling in the last 10 years. The demand for housing counseling continues to rise and we plan to significantly increase the number of housing counselors we train and certify. This will reach more underserved communities and ensure effective education and counseling to a vast number of additional families and individuals.

NeighborWorks housing counseling achievements are even more impressive when you consider that the home buyers directly assisted by the NeighborWorks system are traditionally underserved populations: 51 percent of those home buyers were non-white; 67 percent earned less than their area's median income; and 44 percent were female-headed households. NeighborWorks adheres to strict housing counseling standards that have proven to lower delinquency and default rates. Mortgage delinquency among NeighborWorks customers is lower than for all mortgage loans in the United States. This is amazing when you consider that these borrowers are often viewed by the conventional market as too risky.

Moreover, only 0.25 percent of NeighborWorks borrowers were foreclosed upon. This is less than the foreclosure rate for conventional borrowers. NeighborWorks borrowers are thoroughly educated about the responsibilities of owning a home and therefore have a stabilizing impact on their communities. This is why NeighborWorks insists on Full Cycle Lending.

I thank the subcommittee for the opportunity to speak about the housing counseling successes of NeighborWorks. Your support and guidance have been crucial to our effectiveness. We look forward to greater success in the future and we look forward to working with you in any way we can.

Thank you. I am prepared to answer any questions you might have.

[The prepared statement of Kenneth D. Wade can be found on page 29 in the appendix.]

Chairman NEY. Thank you. We will get to the testimony and then we will come to questioning.

Mr. Diaz?

STATEMENT OF LAUTARO DIAZ, DEPUTY VICE PRESIDENT FOR COMMUNITY DEVELOPMENT, NATIONAL COUNCIL OF LA RAZA

Mr. DIAZ. Thank you, Chairman Ney, Ranking Member Waters and Congresswoman Velazquez and the rest of the members of the subcommittee. My name is Lautaro Diaz. I am NCLR's deputy vice president for community development. I have spent the last 16 years developing and operating community development programs, including small business lending, single-family and multi-family housing development and homeownership programs.

As the nation's largest national Hispanic constituency-based organization, NCLR serves all Hispanic national groups in all the regions of the country through a network of more than 300 affiliated community-based organizations. We have a long history in the housing industry. We have been producing research, policy analysis and advocacy on affordable housing issues for more than two decades. We partnered with Fannie Mae and First Interstate Bank in the early 1990s to pilot one of the first counseling programs called Home To Own. NCLR has since become a national intermediary designated by HUD to distribute funds to community-based organizations providing housing counseling services.

NCLR has concluded that housing counseling is a powerful tool that effectively moves low-income families into homeownership. Homeownership is critical to building wealth in the Latino community. However, Latinos are still significantly less likely than other Americans to be homeowners. Hispanic families have unique financial service needs that are not being met by the marketplace. In fact, we estimate that more than one million Hispanic families are mortgage-ready, yet do not own their own homes. There are four key barriers to this, to increasing Latino homeownership: lack of information regarding the process; lack of affordability in many of the mortgage markets around the country; systemic barriers to obtaining a mortgage; and other market failures.

This brings me to NCLR's homeownership network, or NHN. The mission and purpose of NHN is to increase Latino homeownership in a manner that does not endanger the family financially. The NHN consists of 35 NCLR affiliates in 15 States that provide bilingual pre-purchase homeownership counseling to low-income families. NCLR counsels over 20,000 families per year and closes approximately 3,000 mortgages with those families. Today, more than 13,500 families have achieved homeownership through NHN agencies.

The success of the network is based in large part on the NCLR model which focuses on a single goal: increasing the number of Latino homeowners. NHN counselors may spend 6 months to 3 years helping a family prepare for this goal. Once the family is ready to purchase their home, counselors help families evaluate products, navigate the closing process, and help the family package a loan and send it on to the lenders for verification and processing.

As we all know, the home buying industry is expanding. In the midst of these changes, community-based housing counseling agencies are becoming more critical to the home buying process. They are often the first point of contact for Latino and immigrant families looking for trustworthy information. The counseling agencies play a critical role in filling the market gap that exists for low-income Hispanic families.

It is imperative that all levels of government recognize the important role the organizations play. It is important that the mortgage industry reward families that receive counseling and recognize the value-added provided by counselors. It is equally important that the regulatory environment does not discourage this role.

NCLR has forged many sophisticated national partnerships with financial institutions. These partnerships have allowed us to expand our capacity by, first, increasing funding to counseling agencies by leveraging NCLR's HUD grant funds with private mortgage company contributions to NCLR's network. We have been able to develop innovative database technology designed for counseling agencies to increase staff efficiency. They have helped create fee-for-service relationships that will allow agencies to become more self-sufficient.

Now let me turn to our recommendations. NCLR applauds H.R. 3938 for promoting the visibility and work of housing counselors. However, NCLR would like to make the following recommendations to improve the bill and advance the counseling field. First, we suggest increased funding. The program has proven its capacity and effectiveness. In order to reproduce this success on a larger scale, increased support is necessary. Second, develop a pilot program with FHA clients. FHA and VA loans have the highest delinquency and foreclosure rates. Proven counseling methods can be used to mitigate the risk for both the homeowner and the taxpayer. Finally, support fee income. Agencies must develop ways to generate fee income to become self-sustainable. This committee should encourage HUD to affirm counseling agencies' ability to earn fees.

Thank you and I would be happy to answer any questions afterwards.

[The prepared statement of Lautaro Diaz can be found on page 31 in the appendix.]

Chairman NEY. Thank you very much.

Ms. Grist?

STATEMENT OF LISA-NICOLLE GRIST, CHIEF EXECUTIVE DIRECTOR, NEIGHBORS HELPING NEIGHBORS, INC.

Ms. GRIST. Thank you very much. I am Lisa-Nicolle Grist. I am the executive director of Neighbors Helping Neighbors in Brooklyn, New York.

It is a great honor for me to be invited to join this panel of leaders whose work I have long admired, and to be asked to share a Brooklyn street-level perspective on both the importance and the mechanics of housing counseling.

The home is the base from which families climb the socioeconomic ladder. It is a key to health, educational attainment, business opportunities and intergenerational wealth. Thus, housing counseling helps residents not only to stabilize their housing situa-

tions, but also to advance the quality of their lives. As housing counselors, we envision a society where all people are secure in their ability to find, afford and keep good homes.

Housing is typically a person's largest expense and investment. The price and quality of housing is affected by a complex set of institutions. Therefore, housing counseling helps educate consumers and level the playing field between individuals and institutions that naturally have very different amounts of information and power. For example, housing counseling creates confidence for first-time home buyers facing mortgage banks, tenants facing housing court, and homeowners facing foreclosure attorneys.

Neighbors Helping Neighbors, which is also called NHN or sometimes VAV, is a community-based organization that advocates and serves tenants, homebuyers and owners of small properties and small businesses. Our mission is to enable low-and moderate-income people to build assets for their families and Brooklyn communities by securing, improving and owning their homes and businesses. NHN's most quantifiable results come from helping low-income people get money to buy, keep or improve their homes.

In the course of our history, we have facilitated 148 home repair loans worth almost $2.5 million; 463 mortgages worth over $64 million; and in the past 2 years, NHN has saved over 50 families from becoming homeless by securing rent subsidies worth nearly $485,000. Since housing and money are inseparable, we also measure the difference that we make in people's lives by giving them the information and tools to take charge of their personal finances. NHN is a HUD-certified local housing counseling agency. We have received housing counseling grants each year since 1999 and our experience in applying for and administering the HUD grants has generally been excellent, even though the processes can be somewhat complicated.

The HUD housing counseling grant program offers ample flexibility for us to adjust to changing community needs. NHN's housing counseling work is also funded by New York City and New York State, the Neighborhood Reinvestment Corporation, the New York Mortgage Coalition and its member banks. Our partnerships with banks are very important to NHN's home buyer and homeowner counseling programs. These partnerships give us legitimacy in the eyes of the public and enable us to offer real products, not just words, to people who might otherwise succumb to the aggressive marketing by predatory lenders.

NHN's one-on-one home buyer counseling ensures that people have sufficient income, savings and credit to qualify for a mortgage, and that they shop for homes they can afford. Once a customer has identified an affordable property, NHN calls several banks, helps them complete the application, and helps them through closing. NHN also counsels homeowners on how to seek loan forbearance or pursue other loss mitigation strategies.

Homeowners who miss FHA mortgage payments are advised by their lenders to contact HUD's housing counseling clearinghouse, that 800 number, which refers them to local agencies through zip codes. Sometimes this is less than ideal because homeowners often delay in seeking help because the mortgage delinquency is just one of many disheartening factors that create more stress and chaos in

their lives. Unfortunately, the delay means precious time is lost. Counseling is most effective in the first 3 months of a mortgage delinquency, but is very difficult after a lender starts legal proceedings.

Some large counseling agencies have built relationships with loan servicers so that the agency gets notification of missed mortgage payments and can reach out to homeowners proactively. Although our organization does not participate in that system, I imagine that it is very successful. It requires substantial staff capacity.

Our homeownership counselors must continuously become more efficient, knowledgeable and professionally skilled in order to meet our banking partners' increasing expectations. To help us meet those expectations, NHN receives superb technical assistance from Neighborhood Reinvestment in the person of management consultant Jose Perez.

In addition to homeownership counseling, the need for rental counseling is overwhelming. A person earning the minimum wage would have to work 154 hours a week to afford the average one-bedroom apartment in New York City, or would have to earn a wage of almost $20 an hour to afford a typical two-bedroom apartment. At NHN, we focus on preventing homelessness by helping people to afford and improve their current rental situations. The median annual household income of NHN's tenant customers is less than $7,000; 44 percent of the tenants who seek our help are having problems making rent payments. Due to the high cost of housing and the excess of demand over supply in rental housing in New York, displacement counseling is one of our most important types of work.

I hope this helps address the committee's interests and my written testimony offers more detailed descriptions of our work and the ways that we measure our success, as well as some case studies about people that we have helped.

Thank you for giving me this opportunity to participate in the process.

[The prepared statement of Lisa-Nicolle Grist can be found on page 32 in the appendix.]

Chairman NEY. Thank you.

Mr. Jordan?

STATEMENT OF RODNEY JORDAN, VICE CHAIRMAN, NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY, NORFOLK, VA

Mr. JORDAN. Good afternoon, Chairman Ney and honorable committee members. I am Rodney Jordan, vice-chair of the board of commissioners of Norfolk Redevelopment and Housing Authority in Norfolk, Virginia. With me today are Lori Burden and LaShawn Fortes of the NHRA Homeownership Center, and in the audience is Robert Jenkins, our deputy executive director.

As one of the oldest redevelopment housing authorities in the country, we at NRHA are well aware of the benefits of raising the rate of homeownership. Not only does it strengthen Norfolk's neighborhoods and help maintain a healthy economy, it also contributes to wealth creation and has positive effects on our city's social and educational cultures. That is why we created the NHRA Home-

ownership Center. It is just one of the many innovations we have brought to our industry in recent years.

Another example of how NHRA innovates is that we were the only housing agency in the nation to be awarded an allocation of new market tax credits by the U.S. treasury in the program's first round. These tax credits are enabling us to bring amenities such as fitness centers and grocery stores into the neighborhoods we build, and those amenities in turn attract the homebuyers that we counsel to those neighborhoods.

Today, through our one-stop homeownership center, we demonstrate our commitment to bringing the great American dream of homeownership to more people every year, especially minorities. We do this by providing comprehensive and customized homeownership counseling to any prospective Norfolk homebuyer. Our center is designed to reach families from all economic backgrounds to the variety of housing choices available in Norfolk, including the homes that we build.

The counseling we offer provides potential homebuyers with the tools and resources they need to become homeowners. We have programs that cover everything involved in the process of purchasing a home, from restoring credit and finding the right mortgage, to builder selection, home inspections and foreclosure prevention. To bring a complete range of home buying services to our clients, we form partnerships with banks, developers, mortgage companies, attorneys, real estate firms and other government agencies.

Another important benefit is that through our Homeownership Center, we are able to match buyers with homes in the neighborhoods that we build as a redevelopment authority. Another plus is that our center also creates demand for other NHRA services such as rehabilitating homes and selling real estate. Our housing counseling ultimately increases homeownership in Norfolk, especially among minorities, by educating potential home buyers about the issues involved in buying and owning a home. Our goal is to remove the barriers to homeownership by preparing clients to become mortgage ready, enable them to pre-qualify for loans, and informing them of the range of special financing and mortgage programs available.

The post-homeownership counseling we offer enables clients to handle issues that may come up after loan closing. For some of our clients, this counseling is the first time they have learned anything about homeownership because they come from families caught in the cycle of poverty that has prevented previous generations from becoming homeowners.

Our housing counselors are certified through the Neighborhood Reinvestment Corporation's NeighborWorks Institute and by the Commonwealth of Virginia. We offer a 22-month counseling program through our five home buyer clubs, 6 hours of group counseling through the VHDA home buyers program, and individual counseling customized to each client's needs. We now provide counseling to more than 350 families and individuals annually. Of those, more than 50 are considered mortgage-ready, and at least half of those end up buying new homes that we build in mixed-income neighborhoods. For example, as a result of our homeownership counseling in our new neighborhood of Westchurch, we have

former public housing families living next door to homeowners who earn six-figure salaries.

Although we are not a HUD-approved agency, our mission is comparable. As with those agencies, we give advice on buying a home, renting, defaults, foreclosures and credit histories. Our counseling programs are very similar to those offered by HUD-funded agencies and cover virtually all of the same issues. Preventing foreclosure is addressed through the home buying classes we offer in conjunction with VHDA. For more intensive foreclosure counseling, we refer clients to one of our homeownership center partners, Catholic Charities of Hampton Roads.

We offer a 22-month counseling program through our five homebuyers clubs, as I mentioned before, and additional training as well. One important way that we measure our success is through the number of clients who graduate from our counseling programs. We also track our clients' successes through their improved credit scores, increased savings and reduced debt, loan pre-qualification, and ultimate goal of achieving homeownership.

The classes we offer with VHDA educate our clients about the issues of questionable and predatory lending, as well as foreclosure prevention. Even if the financial institutions we partner with did not require that these issues be addressed, we believe that it is our responsibility to educate and inform our clients about these unfair lending tactics.

I would like to thank you for inviting me here today and I would be free to answer questions at the appropriate time.

[The prepared statement of Rodney Jordan can be found on page 34 in the appendix.]

Chairman NEY. Thank you, Mr. Jordan.

Mr. Obloy?

STATEMENT OF GARY OBLOY, EXECUTIVE DIRECTOR, COMMUNITY ACTION COMMISSION OF BELMONT COUNTY, INC., CLAIRSVILLE, OH

Mr. OBLOY. Good afternoon. My name is Gary Obloy and I am the executive director of the Community Action Commission of Belmont County. We are located in Appalachian Ohio. I wish to thank Chairman Ney and members of the subcommittee for giving me the opportunity to address you today.

I would like to begin by describing for you the mission of the Community Action Commission and by explaining what we do in an attempt to improve the lives of the people we serve. The Community Action Commission of Belmont County is a private nonprofit organization governed by an 18-member board. The agency's mission is to combat poverty, its causes and consequences. The Community Action Commission administers over 20 federal, state and privately funded programs targeted to low-and moderate-income residents of Belmont County. Specific programs include the LIHEAP Program, the Home Weatherization Assistance Program and the Homebuyers Counseling Program.

In January 1997, the Community Action Commission received a certification from the Department of Housing and Urban Development in first-time homebuyer education and for home equity conversion mortgages. In May 2000, the Community Action Commis-

sion received certification from HUD as a local comprehensive housing counseling agency. The Community Action Commission's program provides services in four areas: homebuyer education; budget counseling; foreclosure prevention; and home equity conversion mortgages. Resource materials used include the HUD publication, the Home Buyer Education and Learning Program Guide, also known as HELP, various handouts which have been compiled into booklet form, and a locally designed PowerPoint presentation. Homebuyer education includes general sessions on budgeting, home selection, financing, the closing process, knowing and understanding credit, post-closing, and foreclosure prevention.

General sessions are offered eight times per year with an average class size of 10. In 2003, 25 customers who attended homeownership sessions purchased their first home. From 1996 to 2003, persons attending the sessions have purchased 215 homes. While the purchase of a home is a significant measure of success, it is not the sole indicator of the benefits of a homeownership counseling program. Currently, 27 families are in pre-purchase status, meaning they lack a sufficient down payment or have not been able to identify a home which is financially affordable. This status ranges up to 18 months. Thirty-one families have been working on credit issues for the last 6 to 12 months. Eleven families have contacted the Community Action Commission after becoming delinquent. Seventeen families who purchased a home have contacted the agency requesting additional information on such topics as home repair and insurance.

For the grant year ending September 30, 2002, 96 households completed the home buyer education workshops; 28 purchased housing; 9 decided not to purchase; 2 obtained a home equity conversion mortgage; 3 initiated forbearance agreements or repayment plans; and 1 mortgage was foreclosed upon.

Participants are also schooled in renting versus ownership. A participant's involvement includes an analysis of the household income and expenses, a credit report and discussions on the impact of an immediate purchase as opposed to remaining a renter. If the participant chooses to continue renting, he or she is provided with information aimed at increasing his or her knowledge of their rights and obligations in a landlord-tenant relationship. If safe and affordable rental housing becomes the goal of the participant, a referral is made to the Belmont Metropolitan Housing Authority.

The Community Action Commission views success with its housing counseling efforts not only in terms of homes purchased, but also in delivering services which are needed by the customer. Part of the value of homebuyer education workshops is that participants are given the opportunity to objectively judge whether or not purchasing a home is in their best interest. Statistics show that if they choose to do so, their success in maintaining homeownership is strengthened. Other successes can be seen in the customer who is motivated to purchase, but does not have the down payment or is experiencing credit problems. He or she is provided with the mechanism to address issues that may lead to future ownership. Those who find themselves in a financial dilemma have somewhere to turn and someone to intervene on their behalf.

Key partners in offering a successful program are banking institutions. The relationships are mutually beneficial in that the counseling programs offered by the agency enhances the ability of banks to make good loans. Program participants are educated about banks and lending practices, and are made aware of what banks require from potential loan customers. The partnership also serves to educate participants who might otherwise look to predatory or sub-prime lenders for loans.

In summation, the Community Action Commission has been involved in homebuyer education and homeownership counseling for nearly 8 years. Through the concerted efforts of many partners, we as the community of Belmont County, Ohio have witnessed many families become homeowners. We applaud those families and individuals for their true grit, hard work and dedication in claiming a piece of the American dream. We look forward to a continuing relationship with funding agencies such as the Department of Housing and Urban Development and urge you to consider enhancing the federal government's efforts in the arena of homebuyer education and counseling.

Once again, thank you for the opportunity you afforded me today, and I would be happy to answer any of your questions.

[The prepared statement of Gary F. Obloy can be found on page 36 in the appendix.]

Chairman NEY. Thank you for your testimony.

Mr. Walsh?

STATEMENT OF CHAPMAN WALSH, HOUSING DIRECTOR, GREEN FOREST COMMUNITY DEVELOPMENT CORPORATION, DECATUR, GA

Mr. WALSH. Thank you, Chairman Ney and to all you other members of the subcommittee, especially Congressman Scott from our great state.

My name is Chapman Walsh and I am the housing director at the Green Forest Community Development Corporation, a faith-based community development corporation located in Decatur, Georgia, right outside of metro Atlanta. Green Forest Community Development Corporation was really created and born out of the need that the Green Forest Community Baptist Church felt. The cries coming from the community led that organization to fund and go forward with a move to get granted a 501(c)(3) in 1996. Green Forest Community Development Corporation is a nonprofit and it really focuses on economic development and housing.

The mission of the Green Forest Community Development Corporation is to create empowerment and networking for people through economic development, housing, youth, senior, and health initiatives, social ministries, education, and comprehensive preventive programs for persons of all ages. You can see that is a pretty lengthy list. I am really here today to talk about the housing division. That was the first division started in the Community Development Corporation at Green Forest. Basically, we started because everyone realizes the great need to create safe matriculation from renting to housing in society and communities.

We started really with the Expanding the Dream initiative, which is a homebuyer education program, what many people look

at as a first-time homebuyer program, but in fact many times people who have purchased homes before need housing counseling and need homebuyer education.

During the first year of the program, we were able to help over 300 families move to homeownership either directly or indirectly. At this point, we are well over 700 families who have directly gained benefit from working with Green Forest and from having us help them to understand the process of homeownership and key role players what they should be doing for you and exactly how to acquire a team that works for you.

Green Forest uses a HUD-certified, Freddie Mac-certified and Fannie Mae-certified lecture series. We call that our education piece. Those classes teach potential homebuyers about the key roles of the realtors, what sort of realtor you should have if you are purchasing, the mortgage process, and the appraisals. It talks about renting versus buying. I think everyone wants to know how much it costs. We go on to talk about repairing your credit. I think that what we find is that that is the area that people have most difficulty with.

Clearly, every successful entity in America works on a budget, but very few of our community members are taught formally anywhere how to budget. Consequently, financial illiteracy is a real issue with many people who come into and want to purchase a home. It goes across the board. No matter what their educational background, there are problems with budgeting.

Credit is another issue. What we feel is that anyone who we interface with should be able to come in, learn the process of home purchase, understand who the sharks are, who to stay away from, who to get close to. We feel that the strength of housing counseling is really one-on-one meetings with the clients after this education period. Anyone can help someone move to property, but in fact I think the one-on-one counseling is what helps build a roadmap for an individual that allows that person to find success. As I said, financial illiteracy is a real issue. We use the CreditSmart curriculum. It is a Freddie Mac program to help people to understand the purpose of credit and to help them strengthen their credit profiles.

Our housing counseling program was asked to go and get certified to provide loss mitigation counseling some years ago because of the great foreclosure rate in DeKalb County. That is where most of our work is done right now. Loss mitigation allows people to work out something with the servicers and stay in their homes. I think that the bottom line is that people who are facing foreclosure are really at a loss for which way to turn. Many times, they are taken advantage of. So again, one-on-one counseling is what works with that situation.

To sum it up, the bottom line is one-on-one counseling is what works. Group counseling does not. One-on-one counseling is very, very expensive. We need help.

Thank you.

[The prepared statement of Chapman Walsh can be found on page 38 in the appendix.]

Chairman NEY. I want to thank the panel for some very good testimony.

I want to ask Mr. Obloy, according to the testimony, you take individuals from West Virginia that come over to Ohio for counseling, too?

Mr. OBLOY. Correct.

Chairman NEY. I know Canton, you mentioned in your testimony. Where is the closest in West Virginia to us?

Mr. OBLOY. I believe that the family services in Wheeling was recently awarded or recently certified as a HUD-certified counseling agency. I did a check of the HUD Web site before I came to Washington and their name appeared there.

Chairman NEY. Okay.

Mr. OBLOY. Other than that, the nearest HUD-certified agency would be in the Pittsburgh area.

Chairman NEY. Is every single group here certified by HUD to do counseling officially?

Mr. JORDAN. No.

Chairman NEY. You are not? Okay. Did you want to be? I was just curious. Did I ask a bad question?

[Laughter.]

Maybe we better get Mr. Weicher back here.

Mr. JORDAN. As I mentioned, Mr. Chairman, we are a redevelopment housing authority and we created this homeownership center under those auspices. While we do meet the criteria, we are pleased with our current standing.

Chairman NEY. Okay. Of the groups that have the HUD-certified counseling, the question I wanted to ask, if anybody can answer, does HUD tell every single group the same thing, that this is how you counsel; this is what you say? Is there a laid-out criterion that is given to you all? Gary, do you want to start? I am sorry. Mr. Walsh?

Mr. WALSH. Mr. Chairman, in the loss mitigation area, there are parameters set by HUD to the servicers, but the people who call are all in different situations. So I think that we have to deal with them on a one-on-one basis. The counseling is different for each client.

Chairman NEY. Do you ever get stumped? Is there somebody you have to call? Or have you dealt with the issues so long you are able to do it?

Mr. WALSH. I think you have to work your way through. There is usually an answer and working with the HUD guidelines and the servicers as best we can. We usually can come up with a solution for the community member.

Chairman NEY. But it is standard. HUD gives all of you the same guidelines; nothing changes.

Mr. WADE. I would just like to clarify that a little bit. HUD provides broad guidelines for each of the eligible program activities. One of the things that we do is train the counselors who are actually doing the training in the neighborhoods. We have a defined curriculum that we use at our national training institutes. It is broadly available. We do five of those throughout the year, all over the country. The most recent was in Atlanta the last week of February. Essentially, this is the curriculum that we provide to all of the folks who we train and certify as homebuyer education counselors.

Mr. DIAZ. I would just like to add, what HUD said, as Kenneth mentioned, broad standards. When we apply for HUD funds, we have to present the program curriculum, how it is delivered, when it is delivered, processing in between. The HUD staff approves that as meeting their standard.

Chairman NEY. Okay. And do you think counseling is defined as much as it can be? Or does it need more definition? The reason I say that, in Cleveland, Ohio there was an article and the Cleveland Council decided they were going to have counseling. This gentleman thought his mortgage was going to be $447. It was actually $600 and some. He was in terrible jeopardy and there was a newspaper article on it. The counselor said, well, I don't know; I was hired by the Council. The Cleveland Council put this together; I was hired; I was paid $79; I thought I was telling the right thing.

I do not think they made a clear point of definition, and this was not HUD. This was the Cleveland City Council. I do not think they made clear definition, but do you think counseling has been defined, or in HUD's eyes has been defined enough?

Mr. DIAZ. I would imagine so. I guess when you were saying the question, the services that are provided in counseling, they tend to slide from one to another; for a homebuyer education to pre-purchase; to default counseling. There are a variety of services. So we took some pains to separate those, which HUD has accepted as definition for discrete counseling services.

Chairman NEY. I have one brief last question because I know other members want to ask question, and we do have a third panel, and we appreciate your testimony.

Ms. Grist, I wanted to ask you, you mentioned displacement counseling. What is that? Is that different than regular counseling?

Ms. GRIST. Displacement counseling is a category that was in this most recent year's HUD notice of funding availability as one of its eight eligible activities. In New York and in many cities, and I only know the urban areas, as the local economies have improved, as the real estate markets have heated up, low-income, often long-term residents can no longer afford market rents. One of the side effects of neighborhood improvement which we have all participated in is that a lot of people are now being displaced as their neighborhoods have become more attractive.

So helping people to preserve their rights to the extent that they have them, to stay in their homes, to ensure that abuses are not taking place as people may be forced out of their homes by landlords who are eager to collect market rents, that is part of what we would call displacement counseling. It might even include getting people rent subsidies or even helping people figure out how to relocate.

Chairman NEY. That has happened here in the District of Columbia. I have watched it in the 10 years I have been commuting. We probably ought to talk at some point in time. This bill has not addressed displacement counseling. It is not something we particularly thought of. That is why I wanted to see how much of it you were doing and maybe we will address it in this bill.

Ms. GRIST. It is one of the eligible activities under the current housing counseling program. That is one of the nice things about the program, is that is has offered a great deal of flexibility, both

for us to define what the needs are in our local community and pick among a menu, and to sort out where to place our emphasis.

Chairman NEY. Thank you.

The gentlelady from New York?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Ms. Grist, in your testimony you mentioned how homeowners who miss payments on their mortgages are currently advised by their lenders to contact HUD's housing counseling clearinghouse, which refers them to local agencies. You said that this process is not necessarily ideal. Can you explain a little bit further?

Ms. GRIST. Sure. It is wonderful that people are given access to this 800 number, but it comes in an envelope from their lender which they might not want to open. One characteristic of people who are falling behind on their mortgage is they stop opening their mail, especially their bills. It requires that the homeowner make at least two phone calls, one to the clearinghouse and one to the counseling agency.

So it is a good idea. It is a wonderful idea, but it has its sort of natural pitfalls for homeowners who are avoiding taking care of their situation as quickly as they might. The delay is really what causes problems.

Ms. VELAZQUEZ. You also stated that some large counseling agencies have developed relationships with loan servicers in which they contact the counseling agency when one of their clients becomes delinquent. The housing counselor then contacts the delinquent borrower to provide assistance. You stated that you felt this system is more successful than waiting for the borrowers to contact HUD. Can you talk more about these agreements and explain their effectiveness?

Ms. GRIST. A little bit. Our organization is too small to engage in that kind of operation because it requires considerable staff capacity, but I know that one of our colleagues in New York, Neighborhood Housing Services, which is also part of the NeighborWorks network, has had that kind of relationship. The advantage of it is that, particularly with conventional lenders, it gives an additional support to the homeowner. It takes some of the obligation off of the homeowner to reach out and make that first call. It can avoid that delay period. The key in default counseling is to get the homeowner, counselor and lender talking in a three-way conversation within the first 3 months of delinquency. So a process that allows a counselor to know who is falling behind early is in general a process that I think can work better. Maybe Neighborhood Reinvestment might know how that works other places.

Ms. VELAZQUEZ. Would you?

Mr. WADE. Sure. Yes, we have a number of groups who have that kind of relationship with servicers. Typically, you do need the customer's consent in order for them to allow the home buyer education counselor to contact the customer. Oftentimes, we have encouraged our groups to use a simple release form. We have samples that we have provided to our groups that they can use with their customers, allowing them to be designated as the homebuyer educator.

Ms. VELAZQUEZ. And that will happen at the time of the closing?

Mr. WADE. It is best done at time of closing. Then obviously if you are doing follow-up work for customers, you can also have it done at that time.

Ms. VELAZQUEZ. Mr. Diaz, a key issue for housing counselors is their ability to expand their work and build capacity to meet the needs of growing demands from individuals hoping to purchase a home for their families. Counseling agencies also need technical assistance to build their infrastructure and efficiently serve and attract more families. Can you comment on how support from HUD for capacity building and technical assistance will help housing counselors serve more families?

Mr. DIAZ. Yes, our relationship with HUD and with the counseling agencies that are part of our network, HUD has been, rightfully so, taking on a role of making sure that all the dollars that we have invested are getting to the family, which is really critical. We have taken on the role primarily for technical assistance to make sure the efficiency quality of service things have occurred.

How HUD could be supportive, and they have been supportive with us before, is as mentioned earlier, promote technology usage. We think it is a critical part. It is not replacing the one-on-one contact, but encouraging efficiency within the agencies because database technology can be a really useful tool once it is learned and used well. I think they can also support that activity. One of the key aspects with that is to get people using the database technology requires training. That sometimes is forgotten when they have this great technological thing.

And then finally, HUD does have a lot of technical expertise, particularly on foreclosure counseling; some other technical areas that could be utilized by counselors in terms of training programs, but it has to be offered in a way that is useful to the agency. By that I mean it follows a work-flow. Sometimes that connection is a little harder to make than just offering the training once a month or whatever.

Ms. VELAZQUEZ. So you feel that resources that are available to agencies that offer housing counseling services are not enough in the area of capacity building and technical assistance?

Mr. DIAZ. Yes, that is definitely true.

Ms. VELAZQUEZ. And that will go to the heart of the question that was asked by the Chairman regarding the information that was provided by the counselor to the Virginia person. I do not know, the question that he asked to Mr. Obloy. So Mr. Chairman, I think that this is an area that I think that we need to really look at. If we want to have counselors that are not only providing the information, but on top of what is happening, so that they could provide the effective services.

Mr. OBLOY. May I say something?

Ms. VELAZQUEZ. Yes.

Mr. OBLOY. I appreciate your comment. To take that perhaps a step further as laws change, rules change, regulations change.

Ms. VELAZQUEZ. Sure.

Mr. OBLOY. In order to deliver a quality product, you need that technical assistance to keep the housing counselors up to date on what is happening with credit reporting; what may be happening

with insurance underwriting; what may be happening with all changes in rules and regulations.

Ms. VELAZQUEZ. Thank you very much.

Thank you, Mr. Chairman.

Chairman NEY. Mr. Scott?

Mr. SCOTT. Thank you very much, Mr. Chairman.

Mr. Walsh, thank you again for coming up and being a part of this for all members of the panel. One of the reasons why we are so delighted to have you, Mr. Walsh, is because the area that you are concentrating your counseling services is the highest in the nation in three very critical areas: delinquency, predatory lending, and foreclosure.

It would be very revealing if you could share with us why this is so in South DeKalb, Atlanta, and especially given the fact that this area in the nation is not low income. It is more moderate and middle, and in some degrees higher income. In so doing, could you share with us in responding to those three areas of difficulty, how you feel this legislation, this housing counseling bill can be helpful?

Mr. WALSH. Thank you, Congressman. I do feel that it is critical that the emphasis be placed on more counseling. You are right. In the zip code where my organization is located, 30034, it is a notorious area for predatory-type activities. Many of the homes are owned by elderly people who have really paid most of the mortgage down. They are great targets for people who can come in with some kind of scam, whether it be home improvement or some other type of scam; you know, flip the house and before you know it, they take all that is contained in the house. There is nothing left. There is no equity. These people many times are senior citizens and really do not have the ability to pay a second mortgage or a mortgage at the rate that these predatory-type lenders are offering.

What we see in our area is that our phones are ringing off the hook with people who have reached a 90-day delinquency mark and have received this pamphlet from HUD, or from their servicer. Many times it is ambiguous because the servicers take this pamphlet and they kind of adjust it. It is very hard for some of the people to peruse through this minutiae and get to the HUD hotline and get to a certified counseling agency.

Consequently, many of them get to us when they are 5 or 6 months behind. It is very hard. I just know that our phone is ringing off the hook. We are following the HUD guidelines. We are using the remedies that are available to us, but I think more education and more information for our community is certainly necessary.

Mr. SCOTT. How many families have you helped, certainly if it is measurable on an annual basis?

Mr. WALSH. I think that we average probably over 200 counseling hours a month. That is split between housing counseling and loss mitigation counseling. But I think one of the things that we see is most of the people who are facing foreclosure or 60-or 90-day delinquencies have not gone to housing counseling. They have been targeted by someone that they trusted who put them many times in a sub-prime loan or charged high fees. That is a big part of the problem.

Obviously, we are in very tough economic times and we are seeing a host of people who have lost their jobs, who have lost income. That is a factor also, but I think many of the times it is a matter of mis-education and no education.

Mr. SCOTT. Thank you very much.

Mr. Wade, in your testimony you mention a terminology, "full cycle lending."

Mr. WADE. Yes.

Mr. SCOTT. I think you mentioned it also in connection with delinquency and foreclosure. Could you elaborate on what that means in relationship to foreclosure?

Mr. WADE. Sure. What we have done in the development of our homebuying education efforts is develop what we call the full cycle lending approach. Essentially, it includes an organization that has a partnership with local lenders, local government in their local community. They have a pre-purchase homebuyer education program, and their staff received certification and training at our training institutes.

We also typically have flexible loan products. Oftentimes it includes the provision of down payment and closing cost assistance to assist the homeowner. It would typically provide property services where the organization would provide home inspections and construction management if the home needs repair. And then it requires a post-purchase counseling component as well, so that the customer to a certain extent is helped all the way through the process on the front end, and then has some assistance on the back end as well.

Mr. SCOTT. Thank you.

Those are my questions for now, Mr. Chairman.

Chairman NEY. I want to thank the panel. I appreciate your testimony and appreciate your coming to the Capitol. Thank you.

We will move on to the third panel now. We have Doug Bibby, who is the president of the National Multi Housing Council. The Council is the national association representing the interests of the nation's apartment firms. Previous to joining the National Multi Housing Council, he spent approximately 16 years with Fannie Mae, including having served as the organization's chief administrative officer. Welcome.

We welcome Anne Canfield who is executive vice president of the Consumer Mortgage Coalition, a trade association of national resident mortgage lenders and service providers. Welcome.

Robert Couch is the 2004 chairman, kind of brand new, of the Mortgage Bankers Association, an association of 2,700 members representing mortgage companies and brokers, commercial banks and thrifts, and life insurance companies. Mr. Couch is the president and CEO of New South Federal Savings Bank in Birmingham, Alabama. New South is the largest thrift in Alabama with $1.4 billion in assets.

William Smith is president and CEO of the Mutual Community Savings Bank in Raleigh, North Carolina. He is testifying today on behalf of America's Community Bankers, a trade association representing the nation's community banks of all charter types and sizes.

William Spriggs is executive director of the National Urban League Institute for Opportunity and Equality.

Odette Williamson is a staff attorney with the National Consumer Law Center. The center seeks to help consumers utilize the nation's consumer laws on behalf of low-income Americans. One of the Center's top priorities is providing support on issues involving consumer fraud, predatory lending and sustainable homeownership.

We want to welcome the entire panel. Thank you for your patience. Does anybody have a flight, I should ask? Someone wrote me a note. I know you do. Anybody else? We will start out of order. Mr. Couch, and then we will go down the line, if that is okay.

STATEMENT OF ROBERT COUCH, PRESIDENT AND CEO, NEW SOUTH FEDERAL SAVINGS BANK, ON BEHALF OF THE MORTGAGE BANKERS' ASSOCIATION

Mr. COUCH. Thank you, Congressman. Good morning, Chairman Ney, Congressman Scott. My name is Rob Couch. I am president and chief executive officer of New South Federal Savings Bank in Birmingham, Alabama. I am here today as chairman of the Mortgage Bankers Association. Thank you for inviting MBA to testify today on H.R. 3938, the Expanding Housing Opportunities Through Education and Counseling Act. That is a mouthful, I know.

MBA strongly supports H.R. 3938, as it elevates and expands upon the Department of Housing and Urban Development's current housing counseling activities. We applaud your efforts and those of Representatives Velazquez and Scott for introducing this bill and highlighting the important role that homebuyer education can play in combating predatory lending and assisting American families in making wise housing choices. While there has been a great focus on laws, regulations and stepped-up enforcement, the absolute best defense against predatory lenders is a knowledgeable and empowered borrower in a competitive marketplace.

MBA is also pleased that H.R. 3938 recognizes the importance of housing counseling for those families who live in rental housing. Renters often have significant housing needs and the ability to discuss housing options with a competent housing counselor can stabilize families and help them avoid homelessness. Purchasing a home is often the biggest investment that the typical American family makes. It can bring great financial and social rewards, helping families to build wealth while they put a roof over their heads.

However, buying a home is often also one of the most complicated transactions they ever undertake. H.R. 3938's provision for a toll-free number and Web site will ensure convenient access to information that will assist them with the benefits and responsibilities of homeownership. Through the funding of HUD-approved counseling agencies and the certification of counselors, families across the country who require more personal counseling will have access to it.

We support H.R. 3938 and again applaud your timely effort. In that spirit, I would like to share two important suggestions that MBA believes are essential to the effective implementation of the bill. First, the bill calls for updating and simplifying the mortgage information booklet. This booklet is provided to all borrowers at

time of application. While HUD would be responsible for updating and expanding the booklet into several languages and cultural styles, the bill States that lenders would be required to provide the booklet in a format that is language-appropriate and culturally appropriate for the borrower. This requirement may give borrowers the impression that because they were offered a booklet explaining aspects of home financing in a language other than English, they could expect further documents, communications or assistance in a language other than English. This is just not practicable.

Additionally, the term "culturally appropriate" is far too vague to be used as a reliable compliance standard. MBA believes a mandate requiring lenders to deliver the most language-appropriate or culturally appropriate booklet could become a litigation risk. MBA would like to work with the subcommittee on language that would achieve the intent of H.R. 3938, without the above-cited problems.

There is a second issue I would like to raise. MBA believes that while software programs can be a great tool for consumers to use during the mortgage process, they can fall short in assisting a specific consumer with a specific transaction. A software program will not be able to accurately measure subjective issues. MBA suggests report language be included stating software programs certified by the office of housing counseling should not replace the sound advice of a financial or mortgage services professional.

H.R. 3938 is a bill that takes HUD and housing counseling in the right direction. MBA applauds the efforts that HUD has made to date in prioritizing housing counseling and believes that it can have an even greater impact under the proposed office of housing counseling.

Thank you again for the opportunity to present MBA's views. We look forward to working with you and the subcommittee as it considers this bill.

[The prepared statement of Robert M. Couch can be found on page 46 in the appendix.]

Chairman NEY. I want to thank you. One quick question, in case you have to take off. I have raised this already. Would you all accept the fact that if you had a Web site you could go to and you print it and it prints in Creole or Farsi or Spanish. Would that work in the technological end of it?

Mr. COUCH. It certainly has some possibilities as an intriguing notion, provided that HUD is responsible for the translation and the compilation of all the different languages that would need to be posted there.

Chairman NEY. I understand about you putting the book together versus somebody else putting the book together because you could make a horrific mistake and it would not be good. What is your current liability? Do you have current liability on a certain amount of the information you distribute?

Mr. COUCH. Unfortunately, just like Secretary Weicher, I cannot tell you the exact liability, but we are required to provide a notice to borrowers within 45 days of going into foreclosure. So there are requirements on us to provide HUD-mandated information to all borrowers, whether they are HUD borrowers or not.

Chairman NEY. Thank you.

Mr. Bibby?

STATEMENT OF DOUGLAS BIBBY, PRESIDENT, NATIONAL MULTI HOUSING COUNCIL

Mr. BIBBY. Thank you.

Chairman Ney and distinguished members of the subcommittee, I am Doug Bibby. I am president of the National Multi Housing Council, a national association representing the nation's most prominent apartment firms.

NMHC operates a joint legislative program with the National Apartment Association which represents over 30,000 apartment executives and professionals who own and manage close to five million apartment homes. It is my pleasure to testify on behalf of both organizations today.

We commend you for your leadership and we thank the members of the subcommittee for your valuable work addressing the important issue of housing in America, and particularly the topic of today's hearings, successful homeownership and renting through housing counseling.

I know some of you may be thinking, why is the head of an apartment trade group here discussing housing counseling? Well, as a matter of fact many of our members across the country partner with housing counseling agencies to do just that. They counsel people on a variety of issues important to the entire housing sector. Renters are the homebuyers of tomorrow and vice versa. Many homeowners become renters. Rental housing is a great benefit to many people in America, and our housing policy should not be so lopsided with tax incentives that it distorts what should be our over-arching goal in America: good quality housing for everyone, both owned housing and rental housing.

Let me highlight today the Columbus Housing Partnership, a nonprofit housing provider. They offer various types of housing to meet the needs of individuals and families throughout central Ohio. CHP provides counseling to renters on a variety of topics: how to rent and maintain their apartment home; financial counseling; and homeownership counseling. CHP also provides residents with programs that bring computer labs, resident councils and meals to apartment communities. CHP, a member of the Columbus Apartment Association, partners with Wallick Properties Midwest, a private property management organization and a member of NMHC to manage most of its rental portfolio. Such partnerships not only provide housing-related counseling services, but also other valuable community services. CHP's program is a commitment to provide a start-to-finish approach to housing services.

We feel that appropriate counseling is especially necessary in light of the recent spike in the foreclosure rate, particularly among individuals who participate in homeownership programs with low down payment requirements. We support Congress in your quest to address this issue. NMHC and NAA feel that the time has come to ask whether homeownership above all else and at any cost is wise public policy and sound financial policy.

It is essential that proposed homeownership initiatives include strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership. No one is born a successful homeowner. To be a successful first-time homeowner, an individual

should understand all of the factors that go into purchasing and owning a home, especially the financial considerations.

If I were counseling someone or a family that is now renting an apartment on whether or not they should buy a house with zero down, I would say, if you have a marginal income, few cash reserves, and impaired credit history, I would be very comfortable in advising you to be cautious and be very sure you want to take on the huge emotional and financial challenge of owning a home.

NHMC and NAA urge Congress to include programs that will benefit both renters and potential homebuyers in the proposed office of housing counseling, such as those I have outlined today.

Thank you for the opportunity to testify.

[The prepared statement of Douglas M. Bibby can be found on page 48 in the appendix.]

Chairman NEY. Thank you very much.

Ms. Canfield?

STATEMENT OF ANNE CANFIELD, EXECUTIVE DIRECTOR, CONSUMER MORTGAGE COALITION

Ms. CANFIELD. Chairman Ney, thank you very much for the opportunity to testify today. I would like to request that our full written statement be made a part of the record. Thank you.

We applaud your efforts, Mr. Chairman, and the efforts of Congresswoman Velazquez, as well as Congressman Scott in introducing this legislation. The CMC has believed since its inception in the mid-1990s that housing counseling and education, if done correctly, is a key component to helping individuals first become and then remain successful homeowners.

When the CMC first became actively engaged in this issue some years ago, we found that there was an enormous amount of counseling services that were available to consumers, but, consumers often did not know where to go for the counseling; and very importantly, the quality of counseling services varied dramatically.

Our solutions to these two issues were several-fold. First, in order to address the problem of letting consumers know where to find qualified counselors, we suggested that the government publish an online list of qualified counselors or counseling services and their location. In addition, we suggested the government set up 1-800 numbers that consumers could call and find out where to access these services. Furthermore, we suggested the government engage in a public advertising public relations campaign to let consumers know where these services are; that these services are available and within their reach by simply calling the 1-800 number that would be advertised, or by visiting the HUD Web site.

Second, in an effort to improve the quality of counseling services being provided, we initially suggested having the government develop and make publicly available smart computer systems to be used as a tool to help counselors provide quality counseling services. In addition, we also proposed that these systems be available online so that consumers who had access to computers could use the systems themselves.

Since the concept of utilizing a smart computer system to help improve the quality of counseling services was thought of some years ago, the industry has actually developed a number of similar

programs that are available for consumers online. However, these systems are not necessarily being widely used by the housing counselors themselves to counsel consumers. Rather, the consumers who are computer literate are using them online themselves.

Our third proposal was to have HUD create a counseling certification process to at least ensure that HUD-funded counselors would meet uniform high standards. That HUD certification process could eventually lead to a system whereby counselors would actually seek to be certified by HUD to prove to their customers or consumers that either they or their organization were providing quality services by utilizing the latest technology tools.

Fourth, we suggested that HUD's special information booklet that is required to be given to consumers under RESPA should be available online and that the booklet should include examples illustrating various loan products and how consumers might evaluate which products best fit their needs. While not the only solution, helping consumers understand a loan product and its terms and the responsibilities of homeownership will help to prevent consumers from falling prey to abusive lending practices.

Finally, we suggested that the lender provide information to its mortgage applicants on how they could reach a qualified counselor. This legislation that you have introduced, which is very important, incorporates many of these proposals and we believe it is a very good start to making timely high-quality counseling services available to consumers across the nation.

In addition, we are particularly pleased that the legislation places a high degree of importance on the public awareness campaigns that you have referenced in your bills. Part of the problem right now is that most consumers do not know that a 1-800 number exists at HUD. We also believe it is critical that consumers understand what options are available to them after closing, an item that has been discussed considerably today, particularly when they miss a payment. One of the biggest difficulties that mortgage servicers have is getting delinquent customers to communicate with them about their situation right away and work out a resolution or plan to bring the loan current. If a consumer is reluctant to call and becomes many months delinquent, it is much harder to craft a solution that works for both the consumer and the note-holder. The availability of timely counseling can be of immense help to consumers in this situation. Thus, we are very supportive of the legislation's recognition of the importance of default counseling.

Mr. Chairman, I would like to close with an example of how a housing counseling program can work effectively to help consumers make the right decisions. Some years ago, I used to work for GE Capital and one of the GE Capital companies was GE Mortgage Insurance Company. The late Gale Cincotta came to us a few years ago. She wanted private sector capital and resources in her neighborhood. She helped us understand the people in her neighborhoods and the neighborhoods and the communities themselves. We helped her understand what a financial institution needed in order to make things work on our end.

Together, we created a series of affordable housing products. In fact, I think those were the core of the GSE's affordable housing products some years ago. The first product was a community home-

buyers product. It was an expanded-risk product where GE Mortgage Insurance agreed to insure loans with higher debt-to-income ratios for first-time Low-to-moderate-income homebuyers. However, in order for consumers to qualify for that product, they had to go through a counseling program. We test-marketed the product in five major Midwest cities. The product was distributed through various participating banks and thrifts. GE contributed counseling materials and the participating lenders put up the people, time and space to counsel.

In the first year, we had 1-800 numbers running off the hook. People came into the lender's offices, went through the counseling programs. At the end of the year, only 250 loans had been made. So we were wondering what went wrong. It turned out that everything was right. Many of the consumers, they actually went through the counseling, determined that they were not ready for homeownership yet. So the smart lending institutions actually helped those consumers straighten out their credit records, set up a savings accounts, and many of those consumers actually became successful homebuyers a year later. So we look at that and say that was not only a successful counseling program, but it was a successful homeownership program.

With that, Mr. Chairman and Congressman Scott, thank you again for the opportunity to testify. We want to work with you to get this legislation enacted this year.

[The prepared statement of Anne C. Canfield can be found on page 49 in the appendix.]

Chairman NEY. Thank you.

Mr. Smith?

STATEMENT OF WILLIAM SMITH, PRESIDENT AND CEO, MUTUAL COMMUNITY SAVINGS BANK, ON BEHALF OF AMERICA'S COMMUNITY BANKERS

Mr. SMITH. Good afternoon, Mr. Chairman and other members of the committee. My name is William Smith and I am the president and CEO of Mutual Community Savings Bank in Durham, North Carolina. I am representing America's Community Bankers and its MBank Council.

ACB represents the nation's community banks of all charter types and sizes. ACB created the MBank Council in December, 2001 as a standing committee within ACB to represent ACB's minority-owned institutions. Mutual Community Savings Bank has $94 million in assets. We are 82 years old and are one of only three African American financial institutions in the state of North Carolina. We are a premier housing lender to underserved and emerging communities.

As part of Mutual's vision to educate customers before they are ready to buy a home, Mutual implemented the FDIC's MoneySmart program in October of 2002. It went right to the heart of the community to educate consumers on the importance of financial literacy as a crucial first step towards homeownership.

To further our financial education and homeownership campaign, Mutual's branch managers must conduct a financial education session in their branches. Branch managers actively engage customers unfamiliar with the importance of financial education. I want all

my customers to understand the importance of sound financial management and promote those values to their families.

Mutual also has a trainer to assist our employees in using the FDIC MoneySmart module. This was the first step in assisting my customers on buying a home. One of our first financial education and housing counseling sessions was held at Maple Temple Church in Raleigh, North Carolina. There were 20 parishioners here, including parents and students. They were very engaged in understanding the two most important steps needed before one actually is granted a mortgage: the importance of understanding your credit and the value of good credit when one qualifies for an interest rate.

This housing counseling education is especially important due to the increase in foreclosures. As you know, the highest foreclosure rates are for so-called sub-prime loans, which are disproportionately made in low-income and African American neighborhoods. In 2003, the foreclosure rate for conventional prime loans was 0.53 percent, but for conventional sub-prime loans, it was 6.6 percent.

In ACB's 2004 real estate lending survey, ACB asked its members if their banks required homeowner education or housing counseling for any of their current home mortgages or consumer lending products. Of the 401 responses nationwide, 52 percent required counseling for at least some loan products. Of those that did not require counseling, about half strongly recommended counseling. Those banks that do not require or strongly recommend homeowner education often cite the following reasons: it is not available in the area; it is not convenient; or it is too costly.

I believe that housing counseling and education is a necessity. First, counseling should be made more universally available and encouraged by efforts to streamline the process and lower the cost. Therefore, I am a strong supporter of H.R. 3938. Specifically, I agree with the language in the bill on the scope of homeownership counseling the Department of Housing and Urban Development will undertake. I also support the language to establish a toll-free telephone number and a Web site which anyone can access for homeownership information. In addition, the language in the bill that addresses outreach to vulnerable populations is essential.

In closing, owning a home is the greatest accomplishments a person can achieve. Educating customers and consumers is one of the greatest responsibilities we in the private sector can undertake to decrease foreclosure rates and boost homeownership throughout our nation.

Thanks for allowing me to testify.

[The prepared statement of William Smith can be found on page 109 in the appendix.]

Chairman NEY. Thank you.

Mr. Spriggs?

STATEMENT OF WILLIAM SPRIGGS, EXECUTIVE DIRECTOR, NATIONAL URBAN LEAGUE INSTITUTE FOR OPPORTUNITY AND EQUALITY

Mr. SPRIGGS. Thank you, Chairman Ney and thank you to Congresswoman Velazquez and to Congressman Scott, for this opportunity. The National Urban League runs a housing department. I do not run it. So I want to say thank you to my colleagues Marvin

Owens, who is our vice president for economic development and housing and Cy Richardson who directs the housing program under him.

The League, first off, is a housing counselor funded by HUD. We were an initial partner in the design of the housing counseling program in 1968 with HUD. As such, we are designated as a national intermediary. Our affiliates are certified to do this work through us, and our experiences with the program have been good with regard to implementation. We have generally found that education and counseling services are of broad value for homeowners and can improve the market by facilitating effective consumer use and demand for a very wide range of housing and mortgage products.

One of the key areas our affiliates concentrate on is mortgage delinquency and foreclosure counseling. Others have already talked about this rising problem in the country. We primarily offer delinquency counseling which specifically targets homeowners who are delinquent in repayment of their mortgage and who may or may not have been served a notice of foreclosure. Delinquency counseling usually occurs in one-on-one settings. The National Urban League seeks to assist delinquent borrowers as opposed to efforts from loan officers to structure a repayment plan.

Our program also includes components that assist families looking to rent affordable housing. The affiliates serve as an information clearinghouse for affordable rental opportunities, and after determining that near-term homeownership is not desired or appropriate for a family, we make a referral on behalf of the family for the rental, while keeping the family in a database and contacting the family at a later date to encourage homeownership if requested. Housing counseling greatly benefits the rental market by moving renters to homeownership and thereby freeing up affordable units for other families to move up the housing ladder.

The National Urban League does offer a narrow set of housing counseling services in partnership with Fannie Mae, Freddie Mac, the Bank of America and Chase Bank. With those partners separate from our HUD-funded housing counseling programs, we offer a program to help potential home buyers qualify for mortgages, and National Urban League affiliates separate from our HUD counseling program operate first-time homeownership programs in ways that complement the HUD program. We encourage our affiliates to develop robust and comprehensive housing programs ranging from financial literacy, to first-time homebuyer classes, to housing counseling, to broader asset development strategies such as real estate investment and capital home improvements.

We measure the success of our programs by a number of qualitative and quantitative indicators. First, we gauge the efficacy of the program against the National Urban League's housing policy goals, which include, one, preserving and expanding the supply of good, quality housing units; two, making housing more affordable and more readily available; three, promoting racial and economic diversity in residential neighborhoods; and four, linking housing with the central support of services.

Some of the short-term and long-term quantitative measures include the number of loans and people served, the number of new homeowners, the number of households relocating with housing

search assistance, the number of very low-and moderate-income households paying more than 50 percent for housing. These are some of the measures that we use.

In total from our HUD counseling activities, our affiliates throughout the National Urban League movement service well over 19,000 clients in a year. The nonprofit program is indeed comprehensive in nature and application.

Chairman NEY. Not to interrupt, but I would note that a vote has been called. We have a few minutes, but we want to get your testimony finished, and then also your testimony, and see if there are questions, so we don't hold you.

Mr. SPRIGGS. Okay. Let me sum up, then.

Because of our relationship in terms of doing HUD counseling, we are very appreciative that you have this legislation to call attention to the need for home counseling. We would like to just make a few suggestions. One is in the area of certification, because we do it as an organization and it is very costly and capacity-building at the local level is very hard, if certification could be done at an agency level, so that we could then certify others, would be far more cost-effective. CBOs need to be included in all advisory capacities within the process in order to reach the neighborhoods and the people who most need it. It is really necessary to work through community-based organizations. Finally, we would hope that these wonderful ideas of using technology to reach those who may not have a counseling agency nearby, not be a diversion of funds away from the existing program. We really need funds on top of the existing program. The greatest problem that we are faced with is that while we are a successful provider of counseling services, this program has never been funded to the level that we could do the services at the level we know we have the demand for.

[The prepared statement of William E. Spriggs can be found on page 113 in the appendix.]

Chairman NEY. Thank you.

We will move on as quickly as we can, because I want to see if there are questions by Mr. Scott.

STATEMENT OF ODETTE WILLIAMSON, STAFF ATTORNEY, NATIONAL CONSUMER LAW CENTER

Ms. WILLIAMSON. Sure.

Good afternoon, Subcommittee Chairman Ney and members of the subcommittee, my name is Odette Williamson. I am an attorney with the National Consumer Law Center. At NCLC, I focus on issues relating to sustaining homeownership for low-income consumers, consumer credit and foreclosure prevention issues. I testify here today on behalf of low-income consumers.

We support the committee's effort to improve the level of housing counseling assistance offered to low-income consumers. The achievements of the housing counseling industry are numerous and best exemplified by the sizeable increase in the number of low-income and minority home buyers over the last decade. Now more than ever, a strong housing counseling industry is needed to sustain the gains made in homeownership among low-income consumers from the threat of predatory lending and from the steady rise in the foreclosure rates.

One of the benefits that education and counseling can provide is to make homeowners less vulnerable to predatory lending. A knowledgeable counselor can steer homeowners away from predatory lenders to affordable alternative loan products. However, counseling is not a substitute for strong legislation to protect homeowners from predatory lenders. Only by changing the laws governing mortgage lending can we fully address the problem of predatory lending. Clear prohibitions to stop the worst practices, coupled with assignee liability, are what is needed to tackle this problem.

Federal law must also provide additional protections to borrowers losing their homes to foreclosure. The law should mandate that foreclosures cannot go forward without lenders and servicers being first required to offer counseling and to evaluate the use of loss mitigation options. Similar requirements are already in place for FHA-insured loans. These requirements should be made applicable to all loans.

To assist consumers in danger of foreclosure, the capacity of nonprofit agencies to provide default and delinquency counseling and/or predatory lending assistance must be expanded. Currently, only a portion of the housing counseling agencies offer these programs. Providing these services in an effective manner is expensive. Well-trained counselors must meet one-on-one with consumers to assess their needs and provide direct assistance. An effective housing counselor can prevent foreclosure by acting as a mediator between the homeowner and the servicer. However, nongovernment support for this type of service is currently very limited. More funding and other resources should be specifically allocated to default counseling and for assistance to victims of predatory lenders. Federal policy should also encourage the private mortgage industry to provide more financial support for these types of services.

More funding is necessary to support the housing counseling industry in general. The $45 million to be appropriated for fiscal years 2004 to 2007 under H.R. 3938 should be increased. This does not represent a significant increase from the current funding levels of $37.5 million. More nonprofit and for-profit organizations are providing housing counseling services. With more providers, the small pool of funding dedicated to housing counseling is being spread thin.

In addition, the $45 million called for by H.R. 3938 will fund a new agency and many new initiatives. Without a significant increase in funding, the net result may be a reduction in the amount of funds directed towards HUD-approved agencies. Funding should be doubled to support this new agency and to provide adequate funding for the nonprofit housing counseling agencies that provide direct assistance to consumers.

More funding should also be allocated to research.

Chairman NEY. I will note, and I hate to do this. I feel so bad, but there are 8 minutes and 29 seconds left. So if you want to ask a question, we are running real short on time.

Ms. WILLIAMSON. Okay. I will just sum up. In sum, the housing counseling and education industry provides invaluable assistance to low-income and minority consumers. A strong industry can be a benefit to consumers.

I thank the subcommittee for the opportunity to speak today on behalf of low-income consumers.

[The prepared statement of Odette Williamson can be found on page 158 in the appendix.]

Chairman NEY. Thank you so much.

Mr. Scott?

Mr. SCOTT. Thank you very much. I apologize for this time frame. What a fascinating panel. There is so much I really wanted to get into.

Ms. Williams, you are absolutely right in your testimony. That is why it is so important that if we move ahead with this bill, and we are fortunate we are. We are going to do it. Some of your comments are very pointed. We do have serious questions out there. The assignee liability is an issue that is a probability down the road. But in this legislation, we have some things before us. It is very concerning to me that we move forward with this, making sure that we have the resources to do the counseling; that we indeed have a toll-free number that is friendly, that is language-significant, that is going to do the job.

One of the problems we need to clear up in this toll-free number, for example, in your testimony, Mr. Couch, you referred to the fact that through the current toll-free number and proposed Web site, this bill directly establishes this new department, to establish a new toll-free number; a toll-free number that is different from what is going on. As came from Ms. Canfield's testimony, she didn't even know a toll-free number existed. We need a toll-free number that is friendly; has a human being at it; that is language-specific to the diversity that reflects; and is targeted through marketing programs to get the number out there so we can get some help to the people beforehand.

So it is a fight here just to get these things forward. I know I have to run, but Mr. William Smith, I would be very interested to know right quickly if we could, North Carolina has one of the toughest predatory lending laws on the books. In light of our counseling and in light of your work, very briefly, what is the result of that? What is the implication? Is that working? In terms of the counseling that is needed, does not it even bring forth a greater need for more resources to counseling?

Mr. SMITH. You are right. I believe it is working in North Carolina. Our predatory lending laws are making the leaders in the financial institutions in North Carolina more responsive to making sure we are providing homeownership training, counseling and training. It is about leadership for the banks in North Carolina, particularly in my bank. I provide leadership in my bank by going out and doing homeowners counseling and making sure we give back to the communities, and are doing things in those communities to make homeownership available to the citizens of Durham, North Carolina and Greensboro, and we are.

Mr. SCOTT. Thank you.

Mr. Couch, on that point, I just wanted to make sure that we were clear that we are talking about a new toll-free number. I think you may have put that in your statement. I do not know.

Mr. COUCH. If I said that, it was inadvertent. We are in support of a new toll-free number. There is an existing toll-free number

that is mentioned in the notice that must go out when someone becomes delinquent, within 45 days of delinquency.

Mr. SCOTT. One other thing, too, while we are at it, and we will just get out of here so we can go vote, you mentioned your support in the Mortgage Bankers Association, for this effort in education, financial literacy and so forth. We have $45 million there. As Ms. Williams mentioned, we know that that is a pittance compared to what we are going to need if we are going to make a difference and to do this. Because once you get this out there, we do not know what that final cost would be.

There is certainly some discussion within the private sector of ways and means in which they can augment and assist us with financial support for the financial literacy programs. I certainly wanted to put that on the table as something that you all might take back to your industry as well to see what you could do.

Mr. COUCH. Congressman Scott, I know you have to run, but it is worth noting that many of our members, just as my colleague Mr. Smith said, we do provide counseling services outside of those that are required of us.

Mr. SCOTT. Thank you. Again, we apologize.

Chairman NEY. Thank you.

I want to apologize. I have a few technical things. First of all, Congressman Velazquez wanted me to personally relay that she does have questions, as I do too, but we will get them to you in writing. Also, I have for the record statements to be submitted without objection by Randall Pence, American Society of Home Inspectors, the AARP, Financial Services Roundtable, ACORN, Housing Partnership Network and American Financial Services Association.

I also note that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to you, the witnesses, and to place the responses in the record.

I want to apologize for these votes. You are a great panel. I am glad you were here to get on the record. Thank you very much.

[Whereupon, at 1:26 p.m., the subcommittee was adjourned.]

A P P E N D I X

March 18, 2004

Prepared, not delivered

Opening Statement

Chairman Michael G. Oxley

Financial Services Committee

Subcommittee on Housing and Community Opportunity
"Successful Homeownership and Renting through Housing Counseling"

Thursday, March 18, 2004

Mr. Chairman, counseling is an integral part of affordable housing in the United States. It has proven to be an important element in helping Americans to achieve homeownership, to keep their homes during times of financial stress, and to secure affordable rental housing.

I want to commend Chairman Ney, Congresswoman Velázquez and Congressman Scott for there hard work in introducing H.R. 3938, Expanding Housing Opportunities through Education and Counseling. They are to be commended for focusing the Committee's attention on this important issue.

Counseling services take a variety of forms. They are available from non-profit organizations, government agencies, and financial institutions. They can be delivered through a variety of ways including one-on-one, classroom, home study, and telephone counseling. Helping families learn about the loan products and services available to them and providing them with the skills to identify and avoid predatory lending practices is critical to helping families purchase their first homes. Counseling services are equally important for those seeking affordable rental housing. Not everyone is ready to be a home owner; yet in many real estate markets across the country, finding affordable rental properties can be difficult. Counseling can be an important tool to help families find and secure affordable rental homes.

For the last three years, President Bush has recommended an increase for HUD's Housing Counseling Assistance Program. This year, the President has asked for a record $45 million to support this important counseling grant program. This $45 million will support 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.

Thank you, Chairman Ney, for your work on this important issue and for holding this hearing today. Certainly this is an issue that deserves our Committee's attention, and I look forward to working with you, the President, and other members on ways to promote counseling and to ensure that families are able to find and secure affordable housing in their neighborhoods across this country.

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TESTIMONY OF DOUGLAS M. BIBBY

PRESIDENT OF THE NATIONAL MULTI HOUSING COUNCIL

ON BEHALF OF THE

NATIONAL MULTI HOUSING COUNCIL/
NATIONAL APARTMENT ASSOCIATION

JOINT LEGISLATIVE PROGRAM

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

THURSDAY, MARCH 18, 2004

Chairman Ney, Ranking Member Waters, and distinguished Members of this Subcommittee, my name is Doug Bibby. I am President of the National Multi Housing Council (NMHC), a national association representing the nation's larger and most prominent apartment firms. NMHC operates a joint legislative program with the National Apartment Association (NAA), an industry group representing over 30,000 apartment executives and professionals. It is my pleasure to testify on behalf of both organizations.

NMHC and NAA represent the nation's leading firms participating in the multifamily rental housing industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management, and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is the largest national federation of state and local apartment associations. NAA is comprised of 164 affiliates and represents more than 30,000 professionals who own and manage more than 4.9 million apartments. NMHC and NAA jointly operate a federal legislative program and provide a unified voice for the private apartment industry.

NMHC and NAA commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of housing in America, in particular the topic of the hearing today, "Successful Homeownership and Renting through Housing Counseling." Today I will address the importance of counseling programs and provide several examples of how NMHC/NAA members engage is such programs. NMHC/NAA urge Congress to include programs that will benefit both renters and potential homebuyers in the proposed Office of Housing Counseling, such as those that I will discuss today.

BALANCED HOUSING POLICY

As the Subcommittee considers the proposal to establish an Office of Housing Counseling, it is essential to include programs that benefit *both* homeowners and renters. For almost fifty years, America's national housing policy has emphasized homeownership almost exclusively. But the truth is, America also has an acute need for rental housing. America needs apartment homes for the 80 million Echo Boomers who are already graduating from college and looking for housing. America needs apartment homes for the estimated 13 million immigrants who will come to this country in the next 10 years. America needs apartment homes for all those hard working families who are paying more than half their income for shelter. America needs apartment homes for every town that wants to accommodate population growth without giving up green space and adding to the nation's pollution and traffic congestion. Finally, America needs apartment homes for every city that wants to reclaim a decaying downtown neighborhood.

Not only does America need apartment homes, but a growing number of Americans want them. As American lifestyles have gotten busier, young professionals and empty nesters who could afford to buy are choosing to rent instead. They want the conveniences, amenities, shorter commutes and financial freedom that renting provides. Consider this: over the past five years, the fastest growing segment of apartment renters has been households earning $50,000 a year or more.

Demographic trends make apartments even more important. The groups projected to grow the fastest between now and 2010 are the ones most likely to choose apartment living. If America does not adapt its housing policy to address these realities, our policies will become counterproductive and prevent us from solving other pressing housing problems, such as the growing affordable housing crisis, suburban sprawl, or urban decay.

As our nation's leaders, you must understand that apartment residents are not second-class citizens, and research shows that apartments do not cause property values to decline, crime rates to increase or traffic to worsen. Even if many of your constituents prefer to own a house—even if you personally own a house—you should know that apartments still create value for your community. Homeowners benefit from the fact that teachers, police officers, nurses/healthcare workers and firefighters can afford to live close to where they work. Apartments deliver important economic benefits. Towns without sufficient rental housing forego valuable consumer spending and discourage businesses from expanding or relocating there. To give one example, according to Maxfield Research and GVA Marquette Advisors, the Minneapolis-Saint Paul region forgoes an estimated $265 million per year in consumer spending and business income because it lacks sufficient workforce housing. Finally, every citizen benefits from the parks that can be created in space saved by building apartments.

If America is serious about wanting to build more successful communities, Congress needs to balance the nation's housing policy to explicitly recognize the importance of apartments. NMHC/NAA urge policy makers to challenge old ways of thinking and work together to craft new housing policies that ensure everyone has access to decent and affordable housing – regardless of whether they own or rent. That includes incorporating rental-specific counseling programs in the proposed Office of Housing Counseling.

COUNSELING SERVICES

NONPROFIT PRIVATE HOUSING MANAGEMENT PARTNERSHIPS

In order to assist apartment residents with making smart housing choices, our members offer several types of counseling programs. For example, the Columbus (Ohio) Housing Partnership (CHP), a nonprofit housing provider, offers various types of housing to meet the needs of individuals and families throughout central Ohio. CHP provides counseling to renters on how to rent and maintain their unit, financial counseling and homeownership counseling. CHP also provides resident programs that bring computer labs, resident councils, children's savings clubs, playgrounds, block watches and breakfast/lunch programs to apartment communities. CHP partners with Wallick Properties Midwest, a private property management organization and a member of NMHC, to manage most of its rental portfolio (1,700 units). CHP is a member of the Columbus Apartment Association, which is an affiliate of the National Apartment Association.

Such partnerships not only provide housing-related counseling services, but also other valuable community services. CHP's program is a commitment to provide a "start to finish" approach to housing services. In fact, just this past September, CHP provided 3,000 donated books for a "back to school" event in coordination with their housing management partners.

CHP PROGRAMS

CHP also has a Lease Option Program that includes the development of single-family homes utilizing the Low–Income Housing Tax Credit Program. These homes offer families who are not yet ready to purchase a home the opportunity to learn the responsibilities and benefits of homeownership while providing a safe, decent, affordable rental home for their children. If the resident successfully completes three years of occupancy in the house, they may be given an opportunity to sign an Option Agreement to purchase the home. Successful completion of residency means that the residents have paid all rent and other charges on time every month; maintained the home and fulfilled their obligations as required in the Lease Agreement; and have attended home maintenance and credit counseling programs provided by CHP. The purchase price the resident pays for the house will be determined at the time they are given the right to exercise the option to purchase, which will occur at the end of the 15–year tax credit period. The formula for determining the purchase price is contained in the Option Agreement. The formula contains a $1,000 per year credit for each year they live in the house, so the longer they live there, the lower the purchase price will be.

CHP, a HUD–certified housing counseling agency, also provides a homebuyer education course that consists of eight hours of classroom time. One-on-one counseling is also available and downpayment assistance may also be available through CHP to qualified buyers. Among other things, CHP's homebuyer education course will instruct potential borrowers how to find a home and

negotiate a contract, how to apply for a mortgage loan, how to budget to purchase a home, and how to be a successful homeowner.

CHP is a member of the Housing Partnership Network and the Neighborhood Reinvestment Corporation, agencies that oversee and train nonprofit organizations that provide housing counseling programs. It is important to understand that there are existing programs that Congress should review prior to establishing any new programs.

RENTAL HOMEOWNERSHIP INITIATIVES

NMHC/NAA member firms also provide programs that allow the current residents of a rental property to obtain credits toward a new home purchase. While these programs vary, many set aside a portion of the rent for a future home purchase with an approved builder. These programs allow the resident to, in some cases, set aside 15 to 25 percent of their monthly rent as credit toward a new home purchase. The credit is determined by the amount of rent paid each month combined with the amount of time spent as renters. The programs often allow transferable credits and roommates to earn equal credit.

HISPANIC AND LATINO OUTREACH

NMHC/NAA believe that it is especially important to reach out to populations that may be in particular need of housing counseling. NMHC/NAA recently announced a new initiative with the U.S. Department of Housing and Urban Development (HUD) the National Hispanic Radio Network, and the National Association of Hispanic Real Estate Professionals to reach out to Hispanic and Latino renters. The partnership, formally spelled out in a Memorandum of Understanding (MOU), will provide consumer education to Hispanic and Latino renters and will help combat discrimination against them. The MOU notes that these groups tend to rent and that they will grow faster in numbers than the population as a whole. As part of the initiative, NMHC/NAA pledged to conduct a series of "leadership workshops" to promote best practices that create rental opportunities for Hispanics and Latinos. NMHC/NAA will also help develop and disseminate consumer education materials.

NATIONAL ACCESSIBLE APARTMENT CLEARINGHOUSE

In this country, we place a high value on personal freedoms. For people with disabilities, these freedoms continue to come, however slowly, within reach. As an example of this progress, the apartment industry has developed an effective means to connect individuals with disabilities with apartments that have been designed for, or adapted to meet, their needs: The National Accessible Apartment Clearinghouse (NAAC). With all of life's challenges, the National Accessible Apartment Clearinghouse believes that finding a place to live should not be one of them. NMHC/NAA highlight this outreach initiative as an example of a program that Congress may want to incorporate into the proposed Office of Housing Counseling.

NAAC maintains the only national database of accessible apartments, with a registration of more than 46,000 units. It's a vital resource for the disabled community and an excellent vehicle for apartment owners and managers to effectively market their accessible apartments. For years, builders have incorporated specially designed apartments for people with disabilities in their communities. Yet, without a viable means to reach this market, many of these custom-designed apartments remain vacant. The National Accessible Apartment Clearinghouse provides the long-needed answer. By providing the disabled community, a population that has been underserved in the past, with assistance finding a place to live, NAAC allows more Americans to share in the joy of independent living.

HOMEOWNERSHIP BANDWAGON

NMHC and NAA are very supportive of the need for Congress to address the issue of foreclosure. Like you, NMHC/NAA are concerned with the disturbing trends in the current market place that reflect high foreclosure rates, especially among individuals who participate in homeownership programs with low downpayment requirements. We are concerned that there is insufficient data on the potential impact of the "American Dream Downpayment Act" enacted last year to measure the success of a low downpayment programs on long–term homeownership and responsible homeownership. We are concerned that there is not enough data to justify the creation of the Administration's latest proposal for a zero-downpayment federally insured home mortgage for households that currently cannot qualify for FHA loans. This is just the latest in a series of private and public sector initiatives to push low- and moderate- income families into homeownership. NMHC/NAA feel that the time has come to ask whether "homeownership above all else and at any cost" is wise public policy or sound financial policy. It is essential that the proposed Office of Housing Counseling provide strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership.

The homeownership bandwagon is pushing too many Americans into financial peril rather than into financial security.

- Foreclosures of conventional loans are at near record-level, and FHA foreclosures are at their highest level ever and are still climbing!

- Rising foreclosures also create economic costs. Foreclosure affects more than just the family who loses their house. It creates losses for lenders, loan servicers, mortgage insurers, the GSEs and the city, county or township! One research report says total losses to all stakeholders conservatively average $73,000 per foreclosed FHA–insured loans and $26,600 for foreclosed conventional loans.

- Fully 22 percent of homeowners with a mortgage, or 10.3 million households, did not deduct the mortgage interest they paid from their tax returns, presumably because they did not itemize at all and thus took the standard deduction. The home mortgage interest tax deduction is of little benefit to many lower income homeowners.

- According to HUD, the only group whose housing conditions worsened between 1999 and 2001 were low- and moderate-income owners. While the number of renters with critical housing needs remained essentially unchanged during that period, we added one million new homeowners with incomes below 80 percent of the area median income who are paying more than 50 percent of their income on housing. This nine percent jump brings the total of such households to 14.5 million.

Low- and no-downpayment loans in particular are putting households at higher risk for default and may do more harm than good to local communities.

- Highly leveraged buyers are at risk for owing more on their house than their houses are worth. If prices in their neighborhood fall three to five percent in the first five years they own their house, and they have to move for personal or financial reasons, these cash-poor families will have to come up with 10 percent of their home's value in order to pay off their mortgage.

- These families can quickly find themselves trapped in distressed neighborhoods, especially since simply returning the keys to the lender is not a no-cost option. A 1995 study estimated that the average family loses $7,200 through foreclosure. They also damage their credit rating, which makes it more difficult for them to buy, or even rent, another dwelling.

- According to William H. Rohe, director of the Center for Urban and Regional Studies at the University of North Carolina at Chapel Hill. "A lot of the affordable mortgages at this point are really pushing the envelope. They are qualifying people who really don't have a high probability of being a successful homeowner."

CONCLUSION

NMHC/NAA applaud that you recognize the need for high quality independent housing counseling programs, but we urge you to provide for a balanced approach that recognizes that apartment rental housing is a key element in the nation's housing. Although homeownership rates have continued to grow, the country also continues to have a shortage of affordable housing. In addition, we urge Congress to include housing counseling provisions in all proposed homeownership initiatives.

Over the past decade there has been an expanding effort to promote homeownership and, in particular, to expand ownership for low- and moderate-income families. At the same time, barriers to the development of rental housing continue—from new and more costly fees, to land use and zoning that prohibits multifamily housing, to movements by NIMBY activists to prohibit apartment housing. America's approach to providing housing should be more balanced with a better understanding of the benefits that apartment communities provide. Apartments are a part of the solution to a wide range of issues, including, but not limited to: a wider range of housing choice, enhancing employment opportunities that support local economic development, solving congestion by increasing public transportation use, and increasing the local tax base at a rate often more favorable than single-family housing.

NMHC/NAA urge Congress to include programs that will benefit both renters and potential homebuyers in the proposed Office of Housing Counseling, such as those that I have outlined today.

Thank you for the opportunity to testify today.

Testimony

Of

Anne C. Canfield
Executive Director

Consumer Mortgage Coalition

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"Successful Homeownership and Renting through Housing Counseling"

Committee of Financial Services
Subcommittee of Housing and Community Opportunity

March 18, 2004

Chairman Ney, Ranking Member Waters, and other Members of the Committee, I would like to thank you for the opportunity to testify on H.R. 3938, "Expanding Housing Opportunities through Education and Counseling." The Consumer Mortgage Coalition ("CMC") applauds Chairman Ney, and Representatives Velazquez and Scott for introducing this legislation.

The CMC has believed since its inception in the mid-1990s that housing counseling and education, *if done correctly*, is a key component to helping individuals first become and then remain successful homeowners. In order for counseling to be effective, however, consumers need to know where to access quality counseling services, and those services must be of sufficient quality so that they actually help consumers decide which loan product best meets their financial needs.

CMC's Counseling Solutions

When the CMC first became actively engaged in this issue some years ago, we found that there was an enormous amount of counseling that is available to consumers, but –

- Consumers often did not know where to go for counseling, and very importantly,
- The quality of counseling services varied dramatically.

Our solutions to these two issues were several-fold. First, in order to address the problem of letting consumers know where to find qualified counselors, we suggested that the government publish an on-line list of qualified counselors or counseling services and their location. In addition, we suggested that the government set-up 1-800 numbers that consumers could call to find out where to access those services. Furthermore, we suggested that the government engage in a public advertising/public relations campaign to let consumers know that these services are within their reach by simply calling the 1-800 number that would be advertised or by visiting the HUD website.

Second, in an effort to improve the quality of the counseling services being provided, we initially suggested having the government develop and make publicly available "smart" computer systems to be used as a tool to help counselors provide quality counseling services. In addition, we also proposed that these systems be available on-line so that consumers who had access to computers could use these systems themselves. This idea was not original to us. In fact, Roy Green at the AARP came to us with this concept some years ago. Many government agencies use "smart" computer systems to help government employees respond to questions from various individuals. For example, the Social Security Administration uses a "smart" computer system to help Social Security employees respond to questions from workers and retirees inquiring about their benefits, or other questions.

Since the concept of utilizing a "smart" computer system to help improve the quality of counseling services was thought of some years ago, industry has actually developed a number of similar programs that are available for consumers to use on-line. However, these systems are not necessarily being widely used by the housing counselors to counsel consumers. Rather, consumers themselves who have access to and can use computers are using many of these online systems.

Therefore, our third proposal was to have HUD create a counseling certification process to at least ensure that the HUD-funded counselors meet uniform, high standards. That HUD certification process could eventually lead to a system whereby counselors would actually seek to be certified by HUD to prove to their customer/consumers that either they or their organization were providing quality services by utilizing the latest technology tools.

Fourth, we suggested that HUD's special information booklet required to be given to consumers under RESPA should be made available online, and that the booklet should include examples illustrating various loan products and how consumers might evaluate which products best fit their needs. While not the only solution, helping consumers understand the loan product and its terms, and the responsibilities of homeownership, will help to prevent consumers from falling prey to abusive lending practices.

Finally, we suggested that the lender provide information to its mortgage applicants on how they could reach a qualified counselor.

This legislation incorporates many of these proposals and we believe it is a very good start to making timely, high-quality housing counseling available to consumers. We particularly support the requirement that counselors be duly certified before participating in any HUD counseling program. We should create incentives to have counselors be certified so that consumers can be assured of quality, effective counseling services. We also place a high degree of importance of the public awareness campaigns referenced in the bill. Effective counseling to assure consumers can afford to buy and maintain a home and a mortgage should be treated as importantly as counseling on major health risks, such as smoking.

We also believe it is critical that consumers understand what options are available to them after closing, particularly when they miss a payment. There is important information that consumers need that will help them from falling deeper into default and possibly losing their home. One of the biggest difficulties that mortgage servicers have is getting delinquent consumers to communicate with them about their situation right away and work out a resolution or plan to bring the loan current. If a consumer is reluctant to call and becomes many months' delinquent, it is much harder to craft a solution that works for both the consumer and the note holder. The availability of timely counseling can be of immense help to consumers in this situation. Thus, we are also very supportive of the legislation's recognition of the importance of default counseling.

Importance of Private Sector Involvement

We note that many of these counseling provisions are drawn from H.R. 833, the Responsible Lending Act, also introduced by Chairmen Ney last year. That bill would create a "Consumer Mortgage Protection Board," composed of private sector members representing both business and consumer interests, to oversee and coordinate HUD's counseling activities, while HR 3938 puts this function in a new Office of Housing Counseling within HUD, with an private sector Advisory Committee. We believe that private sector involvement and coordination is key to developing and maintaining the availability, quality and delivery of effective counseling to consumers. We do not want to create another bureaucracy that moves slowly toward the goals of this legislation. Rather we need to have HUD leverage off of the already extensive counseling initiatives, such as the "smart" computer programs, that the private sector has already developed.

Technical Changes

CMC believes that the Subcommittee should make certain technical changes to the legislation.

The Mortgage Loan Foreclosure and Default Study

Section 6 of the legislation requires HUD to perform an extensive study of home loan defaults and foreclosures. We favor such a study. However, we have seen in recent years many advocacy-related "studies" on this issue, most of which appear more interested in denigrating non-prime mortgage lending than actually discovering the reason for the foreclosures. They tend to use a circular logic along the following lines: a lender determined that the consumer was more likely to default, so the consumer got a nonprime loan, and then the consumer defaulted. Thus, nonprime lending caused the default. We believe that the required study, rather than using "as much empirical data as are available," should focus on learning as much as can be learned on a more limited sample of foreclosures in a number of varied localities, including in different geographic regions in the country, in urban, suburban and rural districts, and the like. Was a particular loan built to fail? Or did the borrower hit one of the many life events that we believe generally cause most defaults and foreclosures: death, disability, serious illness or chronic disease or depression, divorce, long-term unemployment? Or was the property under water – either because of some property-flipping scheme or because of a major economic change in the area such as a plant closing or increased crime rates? Could the foreclosure have been prevented with more counseling, either on the front end before the consumer obtained the loan or at the back end once the loan was in default?

The Mortgage Information Booklet

In the changes to the Mortgage Information Booklet, the legislation would require the lender to provide a list of counselors located in the area of the lender. This is fine for lenders that operate in a constricted geography. This does not make much sense for national lenders such as the members of our organization. A better approach would be

for HUD to publish state-specific lists of certified counseling agencies and for lenders to provide the list appropriate for the state where the property is located. In addition, the lender is required to provide the version of the booklet that is most language and culturally appropriate. We often do not know our borrowers well enough within just three days of application to make that determination. A better approach might be that if the lender knows that the borrower would prefer a non-English version of the booklet and the Secretary has promulgated a version in that language, the lender would provide the version of the booklet in that other language. It would not be fair to make lenders liable for translating official notices and booklets such as the Mortgage Information Booklet.

Counseling as Key Component of A Broader Program to Help Consumers

The CMC believes housing counseling and consumer education are key components of a package of solutions to try to prevent abusive lending practices from occurring. They are not the only components. The CMC believes the following initiatives and reforms, collectively, will best help consumers to obtain loans that meet their needs and eliminate fraudulent and abusive practices that have victimized consumers:

- **Mortgage Reform.** The CMC has been in the forefront in advocating for mortgage reform that empowers consumers to use the market and let market competition serve consumers. To accomplish this we first need mortgage reform to simplify the mortgage shopping process and to encourage more borrowers, particularly those with blemished credit, to comparison shop for loans. The mortgage industry is on the verge of tremendous advances that will provide great benefits to consumers *if* we can secure appropriate regulatory relief that allows technology and market competition to improve the delivery of mortgages to consumers at lower costs.

  - **Regulatory Relief #1: The E-Sign Act.** The principal regulatory relief necessary to unleash far-reaching technological advances has already occurred. The Electronic Signatures in Global and National Commerce Act ("E-Sign Act"), enacted several years ago, ensured the legal effect of electronic signatures, contracts, and disclosures. The CMC played a leading role in securing the passage of the E-Sign Act, and particularly the provisions that allow consumer disclosures to be provided on-line and mortgage loans to be effectively transferred electronically. This law has paved the way for the full "electronification" of obtaining a mortgage, from application to closing to recording to sale in the secondary market. This electronification of mortgages should significantly lower interest rate costs by reducing the hedging costs associated with the time gap between the application and funding of a loan.

  - **Regulatory Relief #2: RESPA Reform.** The second regulatory relief that is necessary to allow market competition to bring maximum benefits to consumers in the form of lower settlement costs is RESPA reform. This reform, which has become very controversial, has four objectives: (i) to streamline and simplify the disclosures provided to borrowers so that they will

have better and more certain information with which to make wise credit choices; (ii) to lower settlement costs by removing the regulatory barriers that insulate these costs from the effects of market competition; (iii) to reduce abusive lending practices; and (iv) to ease the burden of compliance by adding much-needed certainty into RESPA's and other related regulatory requirements, which should reduce the continual onslaught of class action litigation that is spawned by ambiguous rules.

- **A Comprehensive Public Awareness and Education Campaign.** As noted above, it is critical that the government, working with the private sector, highlight the importance of counseling. Federal policymakers should implement an ongoing, nationwide public service campaign to advise consumers, particularly the more vulnerable, of the basics of obtaining appropriate loans. Public service announcements could be made on radio and television, and articles and notices could be run in local newspapers and selected publications. As noted above, given that people's homes are at stake, these messages should be every bit as pervasive as the anti-smoking public interest announcements that have frequently appeared in the media in the last several years. This campaign should highlight the importance of obtaining the advice of an independent third party before signing any loan agreements.

- **Improved Counseling.** This is what this legislation is all about. Once made aware of the importance of information to help them navigate the home financing world, consumers will need to be able to avail themselves of counseling services from unbiased sources. Those sources can always include family and friends and industry participants. In addition, however, a nationwide network should be put in place to ensure that all consumers can easily access advice and counseling to help them determine the loan product that best fits their financial needs. A public awareness infrastructure needs to be built out that would include 1-800 numbers with trained, certified, independent counselors, using sophisticated computer software, to help consumers talk through the loan product they are considering. In addition, programs could be developed with community organizations and other organizations serving senior citizens to provide on-site counseling assistance at local senior and community centers and churches. HUD's 800 number for counseling could also be listed on required mortgage disclosures as an initial step to increase awareness of available counseling. Mortgage calculators or "smart" computer programs are now available online. Since these computer programs were already developed by the private sector and are widely available, a process where these programs can be reviewed and certified to be effective in enabling consumers to comparison shop among loans would lend credibility to, and increase the use of, these programs.

- **A Nationwide Licensing Registry.** Consumers need to be able to evaluate the competency and integrity of the mortgage originators with whom they are dealing. For this reason, a nationwide licensing registry should be established on which state regulators could detail consumer complaints, licensing suspensions and

revocations that would be accessible to consumers. The bonding requirements for mortgage brokers should also be increased so that claims against abusive mortgage brokers are more viable.

- **Competitive Automated Underwriting Systems.** Enhanced competition serves borrowers, both in terms of lower costs and greater choices. While HUD has put forth a proposal to increase competition for a loan's costs, we also need greater competition in the underwriting systems that are used to underwrite the vast majority of mortgage loans in this country, which will lead to greater choices. The problem is that two automated underwriting systems ("AUS") -- Freddie Mac's Loan Prospector and Fannie Mae's Desktop Underwriter - dominate the market. The development of AUS and automated property evaluation systems is a significant advance that, as noted above, is part of the "electronification" of the mortgage process that has benefited and will continue to benefit consumers. They can shorten the time from application for a mortgage to approval from weeks to minutes, facilitate accuracy in mortgage documentation, and reduce consumers' costs. However, the dominant use of the GSEs' AUS has raised concerns about whether the GSEs are limiting access to the mortgage market for many borrowers because these AUS are perceived to allow lenders less flexibility in considering compensating factors or alternative credit history (e.g., utility bills or rental payments) that would permit disadvantaged borrowers to qualify for conforming loans. HUD has been concerned about these issues for several years and commissioned the Urban Institute to study them. That study concluded that the GSEs have made some progress in adding flexibility to their underwriting guidelines, but that "[t]he GSEs' guidelines disqualify a disproportionate share of lower income and minority borrowers. Primary lenders are making more aggressive efforts to serve such borrowers by offering loan products that are more flexible than the GSEs' guidelines." Even without a study, however, it simply stands to reason that multiple underwriting systems that provide alternative and more flexible standards are better for consumers than just two. More competition, more choices.

- **Ultimate Need For Uniform, National Rules.** Although real estate has traditionally been regarded as a state law concern, it is clear that mortgage lending is a national industry where it is routine for lenders to lend in multiple states, loans and loan servicing rights to be transferred across state lines, and pools of loans from around the country to be assembled and placed in securities which are sold on the national capital markets. We believe that such a national industry should ultimately have the same, uniform rules that apply to all. Consumers should have the same protections, whether they are in Maine or California, and lenders and servicers should operate on the same, level playing field of regulation across the nation. As you know, state and local governments across the country are enacting or considering legislation that would implement different standards and impose varying levels of prohibitions on lenders. This vastly increases lenders' costs of compliance, which are ultimately passed on to consumers through higher mortgage rates. We hope that any federal legislation that is

considered addresses these concerns by preempting state and local predatory lending laws while providing the same substantive protections from abusive lending to all consumers.

The CMC appreciates the opportunity to provide testimony to this subcommittee on H.R. 3938, and I would be very pleased to answer any questions you might have.

STATEMENT

of

Robert M. Couch

on

H.R. 3938

"Expanding Housing Opportunities Through Education and Counseling Act"

before the

Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

March 18, 2003

Good morning, and thank you Mr. Chairman, for holding this hearing and inviting the Mortgage Bankers Association (MBA)[1] to share its views on H.R. 3938, the "Expanding Housing Opportunities Through Education and Counseling Act," introduced on March 11, 2004. My name is Rob Couch and I am President and Chief Executive Officer of New South Federal Savings Bank in Birmingham, Alabama and Chairman of the Mortgage Bankers Association.

We believe that it is particularly relevant to be discussing housing counseling today, given the discussion the mortgage industry has been involved in over the past several years concerning predatory lending. While there has been a great focus on laws, regulations, and stepped up enforcement, MBA believes that the absolute best defense against predatory lenders is a knowledgeable and empowered borrower.

MBA supports H.R. 3938, for it signals the importance of homebuyer and homeowner education by elevating and expanding upon the current housing counseling activities of the Department of Housing and Urban Development (HUD). We applaud the efforts of Representatives Ney, Velazquez, and Scott for introducing this bill and highlighting the important role that objective information and homebuyer education can play in combating predatory lending and assisting American families in making wise housing choices.

H.R. 3938 also recognizes the importance of housing counseling for those families who live in rental housing. Renters often have significant housing needs, and the ability to discuss housing options with a competent housing counselor can stabilize families and help them avoid homelessness.

MBA is fully supportive of H.R. 3938's language that specifically directs HUD to conduct outreach to vulnerable populations. We believe that it is a wholly appropriate role for HUD to position itself as a source of objective and useful housing information for renters and homebuyers alike. Over the past several years, HUD has made housing counseling a priority. This fact is evidenced by the large increase in funding from $20 million in FY 2002 to $40 million in FY 2003 and FY 2004. H.R. 3938 proposes to further increase this amount to $45 million for FY 2005 and beyond. MBA fully supports this increase in funding and will urge Congress to appropriate this amount.

Purchasing a home is the biggest investment that the typical American family makes. It can also be the most complicated transaction they ever undertake. The nexus of these two facts requires that homebuyers be empowered with information about the

[1] MBA is the national association representing the real estate finance industry. Headquartered in Washington, DC, the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,700 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's website: www.mbaa.org.

homebuying process and that, when needed, they have access to resources to help with their specific situation.

Similarly, owning a home can bring with it great financial and social rewards. Homeowners can build equity while providing a roof over their head. They have pride of ownership and feel a much deeper connection to their neighborhood. Owning a home, though, also brings responsibility. There is no landlord to call when something breaks. Managing one's finances becomes even more important for homeowners: one is not just paying a monthly housing expense, but managing an investment.

Not all homebuyers or homeowners need housing counseling, and MBA would caution against broad mandatory counseling requirements. However, when a person believes that they could benefit from counseling, they should have somewhere to turn to obtain accurate and unbiased information. Additionally, homebuyers or homeowners may wish to speak directly with a counselor to help them make certain decisions.

Through the current toll-free number and proposed website, access to homeownership and rental housing information will be easily accessible throughout the country. Through the funding of HUD-approved counseling agencies, families who require more personal counseling have access to it. There can be no doubt that H.R. 3938, by elevating the role of counseling activities within HUD, is moving the Department in the right direction.

While MBA supports this direction, we would like to take a moment and address some concerns that we have with specific language in H.R. 3938.

First, MBA would suggest revisions to the language that H.R. 3938 proposes to change in Section 4(g)(5) of the U.S Department of Housing and Urban Development Act. H.R. 3938 would require that, whenever a person receives homeownership counseling, that they receive counseling which addresses the "entire process of homeownership," including the decision to purchase a home, the selection and purchase of a home, issues arising during or affecting the period of ownership of a home, and the sale or other disposition of a home. MBA believes that counseling on the entire process of homeownership is appropriate for pre-purchase counseling, but not for post-purchase counseling.

Current homeowners, as opposed to prospective homeowners, typically have very specific counseling needs. For instance, senior homeowners who are mandated to receive counseling prior to obtaining a reverse mortgage under FHA's Home Equity Conversion Mortgage, do not need to also receive counseling on the "entire process of homeownership," which would likely only serve to confuse them. Likewise, homeowners receiving foreclosure avoidance counseling do not need counseling on the "entire process of homeownership."

MBA would suggest specifying that only pre-purchase homeownership counseling under the Act is required to address the entire process of homeownership.

Second, MBA cautions that, while software programs can be a great tool for consumers to use during the mortgage process, they can fall short in assisting a specific consumer with a specific transaction. Certain decisions a consumer makes during the mortgage origination process are subjective, such as the choice between an adjustable rate and a fixed rate mortgage, and these decisions have much to do with a borrower's personal risk tolerance or other factors. A software program will not be able to accurately measure such subjective issues. MBA is concerned that language in H.R. 3938 appears to indicate that ultimately consumers could rely solely on software programs in making decisions about mortgage proposals. MBA would encourage conference report language indicating that the software certified or developed by the newly created Office of Housing Counseling should explicitly state that it is not intended to replace the sound advice of a financial or mortgage services professional.

Third, and most significantly, MBA is concerned about the language used in Section 8 of H.R. 3938 that addresses the updating and simplification of the mortgage information booklet (currently referred to as the "special information booklet"). MBA supports updating the booklet, but believes the mandate that the lender provide the booklet "in the version that is most language- and culturally-appropriate for the person receiving it" is not necessary and could be problematic for lenders to implement.

Mandating lenders to determine the most culture- or language- appropriate booklet for a particular borrower is unnecessary because lenders have a strong market incentive to make their lending process as accommodating as possible to borrowers with a variety of language and cultural needs. The mandate is problematic because the terminology is undefined and exposes lenders to litigation risk.

Most lenders take great efforts to accommodate those for whom English is a second language and to accommodate borrowers from a wide diversity of cultural backgrounds. U.S. demographic trends show that the future growth in the mortgage industry will come from immigrants and others who may require certain accommodations to understand and feel comfortable with the mortgage lending process. Mortgage lenders are very cognizant of this fact and therefore have a very sound business reason to make such accommodations. Lenders have implemented a number of initiatives to adequately serve this those with unique language or cultural needs. Some lenders have begun marketing in various languages and to various cultures. Others have hired multi-lingual staff and opened local branches in targeted communities. These efforts are widespread and are a positive response to market incentives.

The term "culturally-appropriate" is far too vague to be used as a reliable compliance standard. It is unclear if a borrower could even self-select their own "culturally appropriate" booklet. MBA cannot specifically define the term, and we do not think that our loan officers and borrowers sitting around a kitchen table going over the details of a loan proposal will know what it means either.

A borrower who receives the booklet in a language other than English may be misled into believing that subsequent documentation or communication will also be available in that language. This is an impossible expectation for lenders to fulfill because all the various parties to a mortgage transaction, from lenders to title companies to county recorders, do not have the capacity or willingness to deliver all documents in any language other than English.

In fact, offering the booklet in a language other than English may trigger certain state law requirements. For example, certain states require loans to be closed and serviced in the same language with which they are negotiated. Thus, if delivering the booklet falls under the definition of "mortgage negotiations" within a certain state, then a lender could be exposed to litigation risk.

The proposed Office of Housing Counseling could do a great service by providing information through its toll-free number and website in as many languages at it deems practical. However, when it comes to the multitude of legal requirements for lenders in a mortgage transaction, MBA believes that a single language is the only way to ensure consistency and compliance. We do not believe lenders should have the liability of determining the most "culturally-appropriate" or language-appropriate booklet for a borrower.

MBA would suggest removing the term "culturally-appropriate" from H.R. 3938, wherever it appears, and would further suggest requiring only that lenders be required to offer booklets in every language in which the Office of Housing Counseling distributes them. We look forward to working with the sponsors and subcommittee on how HUD can provide information in multiple languages, without imposing the distribution requirements on lenders and therefore creating possible litigation risks.

H.R. 3938 would also require lenders to distribute, along with the updated booklet, a list of certified homeownership counselors who are "located in the area of the lender." MBA believes this requirement should be changed to require lenders to provide borrowers with the toll-free number and website of the Office of Housing Counseling. Borrowers would have access to updated information about counselors located in the area where they're buying their home, not the area where the lender is located. Borrowers would not receive the most updated information if they relied on hardcopy lists of counselors maintained by lenders. MBA believes borrowers are best served through the toll-free number or website.

H.R. 3938 is a bill that takes HUD in the right direction. HUD's role as an educator for families in the mortgage process is an important one. We applaud the efforts that HUD has made to date in prioritizing housing counseling and believe it can have an even greater impact under the proposed Office of Housing Counseling.

We also further applaud the efforts of Representatives Ney, Velazquez, and Scott for introducing this bill and emphasizing the importance of housing counseling. We know

that you realize, as does the mortgage industry, that an educated and empowered homebuyer is the best defense against predatory lending.

On behalf of MBA and our over 2,700 member companies, we thank you for the opportunity to testify today and look forward to working with you to deliver quality counseling to homebuyers, homeowners, and renters.

We would be happy to furnish any additional needed information to the committee as it considers this bill.

Thank you.

NCLR
NATIONAL COUNCIL OF LA RAZA

Increasing Latino Homeownership Through Housing Counseling

Submitted to:

U.S. House of Representatives Committee on Financial Services
Subcommittee on Community and Housing Opportunity

Submitted by:

Lautaro Diaz
Deputy Vice President, Community Development

NATIONAL COUNCIL OF LA RAZA
1111 19th Street NW
Suite 1000
Washington, DC 20036
(202) 785-1670

Raul Yzaguirre
President/CEO

March 18, 2004

Introduction
On behalf of the National Council of La Raza (NCLR), I am pleased to present this statement for "Successful Homeownership and Renting through Housing Counseling." NCLR is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve life opportunities for the nation's Hispanics. As the largest national Hispanic constituency-based organization, NCLR serves all Hispanic nationality groups in all regions of the country through a network of more than 300 affiliate community-based organizations.

Homeownership counseling is a powerful tool that effectively moves low-income Latino families into homeownership, which in turn gives them the opportunity to build wealth and secure their financial futures. NCLR is one of the 18 national and regional intermediaries designated by the Department of Housing and Urban Development (HUD) to distribute funds to community-based organizations providing housing counseling services. Each intermediary distributes funds based on its own criteria and priorities; NCLR works through the NCLR Homeownership Network (NHN), which provides pre-purchase housing counseling services to more than 20,000 families annually. In addition, NCLR conducts research, advocacy, and policy analysis on Latino homeownership, housing discrimination, and access to financial services.

NCLR has an extensive history on the issue. From a public policy perspective, NCLR began advocating for more flexible underwriting guidelines and affordable housing products in the late 1980s. In the early 1990s, NCLR partnered with Fannie Mae and First InterState Bank to design and implement one of the earliest pilot projects to test the feasibility of new approaches to homeownership. In conjunction with the Arizona Housing Alliance, a coalition of NCLR affiliates, a model was implemented incorporating an affordable housing product with more flexible underwriting guidelines; pre-purchase housing counseling; and credit enhancements including downpayment assistance. Called "Home To Own," this pilot provided mortgages to nearly 500 families, all of whom earned below 80% of Area Median Income (AMI), with half going to families below 60% of AMI.

An independent evaluation conducted by the Morrison Institute for Public Policy found that the three most important factors that facilitated participants' successful transition to homeownership were: (1) in-depth, one-on-one housing counseling; (2) the provision of services by trusted community-based agencies; and (3) a more flexible, more affordable mortgage product. Somewhat surprisingly, the evaluation found that downpayment assistance had a negligible effect on successful participants' capacity to purchase their home. Subsequently, Fannie Mae and First InterState reported the delinquency and foreclosure rate for the Home To Own portfolio to be well below industry averages. The Home To Own experience convinced us that the combination of pre-purchase housing counseling provided by community-based groups, and more flexible, more affordable mortgage products (and underwriting guidelines) were the key building blocks for successful homeownership programs in the Hispanic community.

Latino Homeownership
Increasing Latino homeownership is critical to the financial stability of the Latino community. For most American families, a home is their primary asset; homeownership represents their single greatest wealth-building vehicle, allowing households to leverage equity to send children to college or start a business, and build strong and stable communities. While Latino

homeownership increased by 94% between 1991 and 2001, only 48% of Latino families own their own home, compared to 75% of non-Hispanic White families. This lag in homeownership is the primary factor behind the 27 to 1 wealth gap ratio that currently exists between Whites and Latinos. There are several major barriers to increasing Latino homeownership levels, including lack of information and relationships with mainstream financial institutions; lack of affordability; systemic barriers; and the failure of the homebuying market to reach and serve the Latino community adequately.

- *Lack of information:* Many Hispanic families lack formal relationships with mainstream financial institutions; approximately 35% of Latino families, and 42% of foreign-born Latinos, do not have bank accounts.[1] Historically low levels of outreach from the financial services sector and a certain amount of mistrust within the community, especially for immigrant households who are more familiar with cash-driven economies, have contributed to the lack of information and access. However, because many first-time Hispanic homebuyers are also first-generation homebuyers – and one in ten first-time homebuyers is foreign-born – many Latinos do not benefit from advice on the homebuying process passed through family members or neighbors, as is common in other communities. This also means that Latinos are susceptible to unscrupulous lenders and dubious lending products that endanger the hard-earned savings and financial security of families.

- *Systemic Barriers:* Many Hispanic households have thin or no credit histories, which often result in artificially low credit scores, and research shows that one in four people are likely to have errors on their credit report. As a result, an otherwise mortgage-ready family may be unable to qualify for a loan, or may be paying too much for their financing. The financial services industry and community-based organizations are working together to establish alternative forms of credit and credit scoring to address this issue. However, even when such alternative underwriting systems are in place these loans require manual underwriting and do not earn commission-based loan officers high returns, and as such are often low priorities for many industry players. Further, significant evidence exists of discrimination against Latino families in the real estate and mortgage markets. As a result, Latinos do not receive their fair share of conventional loans and are overrepresented in the subprime market.

- *Affordability:* Although the Hispanic population is growing in many areas of the country, more than two-thirds live in five states: California, New York, Texas, Florida, and Illinois. California and New York, where more than a third of Hispanic households are concentrated, are two of the least affordable states in which to live, according to the National Low Income Housing Coalition. More than two in five Hispanic households, and more than a third of Hispanic owners, pay more than 30% of their income toward housing, the federally-recommended standard for affordability. Further, high rents in these markets contribute to low levels of savings that could be used for downpayment, closing costs, or the cash reserve necessary to close a mortgage loan.

- *Market Failure:* NCLR estimates that more than one million Hispanic families are mortgage-ready but are either unaware of their homebuying options or otherwise underserved by

[1] Pew Hispanic Center

mainstream financial institutions.[2] Many banks have developed "emerging market" programs and product lines, but more needs to be done to incorporate the needs of the Latino community into the core business plan of financial institutions. Despite substantial progress in recent years, most financial industries lack branches in low-income Latino neighborhoods, bilingual staff, and flexible products that meet the needs of the Hispanic community.

The NCLR Homeownership Network

The NCLR Homeownership Network (NHN) consists of 35 NCLR affiliates in 15 states which provide pre-purchase, bilingual homeownership counseling to low-income families in predominately Latino neighborhoods. Along with basic homeownership education classes, affiliates provide intense one-on-one counseling designed to move families from whatever their current economic status is to eventual homeownership. Depending on the needs of the family, counselors may spend six months to three years preparing a family for homeownership. NHN affiliates are independent community-based organizations (CBOs), incorporated into the network based on target plans submitted to NCLR for review. Incorporation into NHN automatically qualifies CBOs for HUD certification, grants from NCLR, technical assistance from NCLR staff, and access to products available via national lender partnerships. Created in 1997, NHN counsels over 20,000 families, and closes approximately 2,500 mortgages, annually. More than 13,500 families have achieved homeownership through NHN agencies since the network's inception.

The success of this network is based, in large part, on the NCLR model, which focuses on a single goal: increasing Latino homeownership. NHN groups provide bilingual homebuyer education that breaks down the homebuying process for first-time homebuyers. Approximately 80% of those attending the classes are not ready to purchase a home immediately, often due to either lack of savings or high housing costs. NHN counselors work with families to obtain and review credit reports, create family budgets, and prepare goal-oriented work plans, giving them the tools they need to achieve homeownership. Once mortgage-ready, counselors provide families with at least three comparable, competitive mortgage products and package the loan requirements so the only step left for the loan officer is verification. Since many Latino families make use of alternative forms of credit or specialized, affordable products, this prequalification and packaging process saves the financial institutions significant time in processing and origination. A range of other services augments the core model, such as financial education, credit counseling, default counseling, and rental and emergency housing assistance.

NHN agencies also create other avenues to affordable housing on behalf of their clients. Many groups serve as the counseling provider for local and state downpayment assistance programs and conduits to affordable housing developments. Further, sophisticated national lender relationships with Bank of America, Wells Fargo, US Bank, Freddie Mac, and Fannie Mae have led to the creation of a growing supply of affordable products available to creditworthy, but lower-income, borrowers who have completed homeownership education and counseling.

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[2] NCLR calculations of a study by the Joint Center for Housing of Harvard University that determined that 26% of the homeownership gap was unable to be explained by differences in age, income, or family composition. See *State of America's Housing: 2003*. Cambridge, Massachusetts: Joint Center for Housing, 2003; Figure 7.

NHN has been on the forefront of innovations in the counseling industry, which have led to better service delivery to Latino families. NCLR and NHN played a critical role in the creation of a new counseling database technology called CounselorMax. CounselorMax is a cutting-edge development that revolutionized the old paper-filing system, allowed counselors to see more clients and use their time more efficiently, and helped lead the effort to increasing the professional standards within the counseling industry. In addition, NCLR has been an active player in the development of now ubiquitous affordable mortgage products and more flexible underwriting standards met by the industry. Because of these innovations, NCLR has been able to expand NHN, reaching more underserved areas and families. These partnerships built the capacity and impact of NHN, but also changed the way financial institutions viewed and engaged the services provided by the counseling industry. Seeing the potential of NHN, other lenders such as Countrywide and Washington Mutual are exploring potential partnerships with NCLR.

Housing Counseling Industry

Housing counseling is an industry growing in importance and sophistication. Market dynamics are shifting, more credit is available to credit-impaired and less sophisticated shoppers, and many Latino and underserved markets are gaining attention. In the midst of these changes, community-based housing counseling agencies are becoming more critical to the homebuying process. They are often the first point of contact for neighborhood and immigrant families looking for trustworthy information. It is imperative that all levels of government recognize the important role these organizations play and support their efforts. That said, there are several areas where NCLR believes the housing counseling industry is working well:

- **Integration:** Before the engagement of the homebuying industry, agency-industry relationships were mostly based on a referral system whereby an agency would provide outreach and education services and then send a family to the lender. Now community agencies are engaging the homebuying network from a much more global perspective by prequalifying families before sending them to the lender, and moving toward loan packaging through nonprofit brokerage programs. Industry leaders, too, are changing the way they approach counseling networks based on the value of the services they provide, i.e., mortgage-ready families.

- **Impact:** Community agencies increasingly have moved away from a "passive model" of service based on increasing awareness to an "impact model" that focuses on results – increasing homeownership. As a result, the counseling industry is forging new business strategies via sophisticated lender partnerships that have led to innovative new products for low-income families and ventures into loan origination and processing. Housing counseling reaches very low-income families and has been successful in moving these families into homeownership; these innovations have been critical in providing low-income families access to resources that lead to homeownership.

- **Technology:** Prior to the introduction of online database management tools, counselors had to manage their client load and reporting requirements with a paper filing system. Technology has increased the counselor's efficiency and consistency and has facilitated new relationships with the industry. Also, the introduction of new technology in community-

based facilities has opened doors to bridging the digital divide that exists in low-income communities.

However, there are also some barriers that, left unaddressed, may prohibit the industry from expanding:

- **Fee Income:** In order for agencies to effectively expand their operations and reach more families, they must become more sustainable financially. HUD's HOME program counseling grants cannot, and should not, be the sole source of funding for the agencies. NCLR has worked with national lenders to create a fee-for-service revenue stream that would support counseling work on a per-loan basis. However, many lenders have resisted paying counseling groups a fee, fearing incorrectly that it will be perceived as a payment for referral, as prohibited in Section 8 of the Real Estate Settlement Procedures Act (RESPA), and expose them to legal action. However, RESPA does allow banks to pay a fee for a bona fide service. Housing counselors provide a valuable service (education and financial preparation) to the lending community, which results in a tangible product (bankable family) and value based on reduced risk and mitigation of risk.

- **Funding:** Further, HUD guidelines disallowing local nonprofits from combining Community Development Block Grant (CDBG) funding and housing counseling funding (from an intermediary or directly from HUD) to fund homeownership counseling activities unnecessarily restrict counseling agencies' access to certain funding sources; the activity is considered "double-dipping." Though both come from HUD, counseling funds are set aside within the HOME Program budget and are entirely separate from CDBG funds. National and regional intermediaries distribute their housing counseling dollars with different granting methods and deliverables than local governments. Local nonprofits must be able to make use of all available funding sources in order to fund their operations fully.

- **Capacity-building:** Housing counseling agencies suffer from high turnover, high training costs, and scarce resources for continuing education. They need increases resources, in the form of funding, materials, and training opportunities, that will support current activities and allow successful programs to expand.

- **HUD Capacity:** HUD currently offers a "thin" certification process while advertising "HUD-certified counseling agencies" as a public resource; however, there is little follow-up support. HUD needs resources to make counseling a priority program, which would include promoting best practices; increased public knowledge of counseling methods through research and evaluation; and targeted media and social marketing campaigns that would increase public awareness of the benefits of counseling.

Legislation

The housing counseling industry consists of many mature, experienced organizations that make up a core infrastructure that is an invaluable resource to low-income families, neighborhoods, and the homebuying industry. The past few years have produced technological and methodological advances that are allowing these organizations to serve their constituencies better and in more efficient ways.

Legislation addressing housing counseling should advance and support this growing field and provide avenues for expansion. The "Expanding Housing Opportunities Through Educationa dn Counseling Act," H.R. 3938, has some positive aspects worth noting, as well as some areas for concern. Among the positive aspects:

- **Office of Housing Counseling:** H.R. 3938 establishes an Office of Housing Counseling. The counseling industry will benefit from bringing all pieces of counseling into a central location and under the auspices of one director. Further, as this will be the only focus of the office, NCLR expects this will raise awareness of counseling organizations, as well as the priority of their work and needs. However, NCLR strongly suggests making use of existing expertise and not creating unnecessary overhead; in this connection, it may be possible to achieve the same result through alternative means.

- **Set Standards:** NCLR applauds the use of set standards as guidelines that will promote best practices within the counseling industry. Setting high standards on which an agency's certification is dependent, as opposed to uniform materials that would create a bureaucratic enforcement nightmare, allows agencies to customize their models to local housing markets while maintaining professional benchmarks.

- **Advisory Board:** The legislation creates an advisory board with rotating membership, which will inform the Secretary and director on matters of the counseling and homebuying industries. The expectation is that this advisory board will help integrate housing counseling further into the homebuying process. However, NCLR strongly recommends changing language to ensure that non-profit counseling providers have equal representation on the board.

- **Default and Foreclosure Study:** NCLR applauds the authors of this legislation for including a study examining foreclosure. To strengthen Section 6, NCLR recommends adding language that will study foreclosure by race and ethnicity, or at the very least by neighborhood, and will look at broad factors contributing to impacting foreclosure cases such as microeconomics, customer service, and loss mitigation strategies used.

The proposed legislation also has aspects about which we are concerned, and excludes important elements that would further advance the field of counseling:

- **Low Authorization:** The counseling industry is one that has shown rapid maturation, expansion, and professionalization. This success has been rewarded with modest increases in appropriations in the past few budgets. However, in order for the counseling industry to take its operation "to scale," further investments in training, technology, and capacity-building are necessary. This cannot be accomplished with a mere $5 million increase, and at a level sustained over the next three years. Further, additional costs created through this legislation, such as mortgage software, and the Administration's Zero Downpayment FHA product will place additional strains on already tight budgets and could even have the effect of a net cut in funding. To truly impact the field, generate expansion of services, and build capacity, the housing counseling authorization needs to be increased to at least $100 million over time.

- **Counseling Software:** While the general middle-class, first-time homebuyer may benefit from an online counseling product, the low-income clients seen by NCLR's counseling agencies will not. For this reason, it is worth stressing that the counseling software should not be seen as a replacement or substitute for one-on-one pre-purchase counseling, nor should resources dedicated to low-income families be siphoned away for this purpose.

- **Other Entities:** H.R. 3938 confirms HUD's ability to make grants to states, units of local governments, and nonprofit organizations, but also adds "other entities." It is unclear, and never defined, what is intended by "other entities." NCLR recommends removing this language.

- **FHA Pilot Program:** Any counseling legislation that moves forward must include an FHA counseling pilot program. As FHA foreclosures continue to rise, it behooves all interested parties to provide FHA borrowers with research-proven, pre-purchase homeownership counseling, and, in the case of default, loss mitigation counseling. This is an opportunity to support and maximize the experience and innovations of the counseling industry while at the same time creating a savings for FHA/VA by sending otherwise risky clients to homeownership counseling sessions that mitigate the risk of delinquency and foreclosure.

- **Clarify RESPA:** The demands on the local housing counseling agencies are growing. Agencies are being stretched beyond capacity to provide more services such as financial literacy, services to the unbanked, credit counseling, home maintenance, antipredatory lending initiatives, and default counseling. In order to preserve their ability to provide these services the agencies must have access to a consistent and reliable earned-fee income from diverse sources. HUD should immediately issue a mortgagee letter that clarifies Real Estate Settlements Procedure Act (RESPA) regulations allowing counseling agencies to charge a fee for bona fide services rendered. If HUD cannot do this on a timely basis, then Congress should consider a legislative remedy.

- **Change HUD regulations disallowing the combination of local CDBG funding and intermediary funding for counseling activities.** While well-intentioned to prevent HUD dollars in different forms from paying for the same service, the current "double-dipping" prohibition severely limits potential funding sources for local agencies. Cities and counties should be granted enough autonomy to fund the best agency for the services most needed within their communities. At the same time, safety and soundness regulations can be put into place to prevent agencies from double billing for the same work. (An example of such side-by-side funding is CDBG and Empowerment Zone funds used for the same local project.)

Conclusion

Now is an important time to support and expand the work of community-based housing counseling agencies. Market data show that a significant portion of first-time homebuyers in coming years will be minorities, low-income families, and immigrants. This is exactly the clientele that most utilizes, and most benefits from, the services of housing counselors. The housing counseling industry needs comprehensive legislation that brings innovation to the

industry, clears the way for new growth, and builds capacity. While H.R. 3938 proposes some useful steps in this direction, NCLR believes that a bolder, more comprehensive approach is needed.

I would be happy to answer any questions.

Testimony on "Successful Homeownership and Renting through Housing Counseling"

For the Subcommittee on Housing and Community Opportunity of the

Committee on Financial Services, U.S. House of Representatives

On Thursday, March 18th, 2004

By Lisa-Nicolle Grist

Executive Director of Neighbors Helping Neighbors, Inc. (Brooklyn NY)

Ladies and Gentlemen: It is a great honor for me to be invited to join this panel of community development leaders whose work I have long admired, and to be asked to share a Brooklyn street-level perspective on both the importance and the mechanics of housing counseling.

The home is the base from which families climb the socio-economic ladder; it is a key to health, educational achievement, business opportunities and intergenerational wealth. Thus, housing counseling helps residents not only to stabilize their housing situations but also to advance the quality of their lives. As housing counselors, we envision a society where all people are secure in their ability to find, afford and keep good homes.

Housing is typically a person's largest expense and investment, and the price and quality of housing is affected by a complex array of institutions. Therefore, housing counseling helps educate consumers and level the playing field between individuals and institutions that naturally have very different amounts of information and power. For example, housing counseling creates confidence for first-time homebuyers facing mortgage banks, tenants facing housing court, and homeowners facing foreclosure attorneys.

Neighbors Helping Neighbors, Inc. (NHN) is a community-based advocacy organization serving tenants, homebuyers, and owners of small properties and small businesses. Our mission is to enable low- and moderate-income people to build assets for their families and Brooklyn communities by securing, improving and owning their homes and businesses. Through NHN's core programs,

- low-income tenants retain and improve their homes,
- low- and moderate-income people succeed in purchasing affordable first homes,
- homeowners repair their homes and resolve mortgage delinquencies,
- local shopping streets become good places to conduct business, work, shop and live, and

- community members join with policy makers to preserve and create affordable housing.

NHN was founded by community residents in 1990 and we are proud of the steady growth of our programs, budget and management capacity. With 10 employees and a core operating budget of $550,000, we offer counseling services to over 1600 households per year. We conduct all eight of the housing counseling activities eligible under the most recent Notice of Funding Availability for the U.S. Department of Housing and Urban Development (HUD):

1. Pre-Occupancy Counseling
2. Homebuyer Education Programs
3. Mortgage Default and Rent Delinquency Counseling
4. Post-Purchase/Post-Occupancy Counseling
5. Home Equity Conversion Mortgage (HECM) Counseling
6. Home Improvement and Rehabilitation Counseling
7. Displacement Counseling
8. Marketing and Outreach Initiatives

NHN's most quantifiable results come from helping low-income people get money to buy, keep or improve their homes. From 1990 through 2003, NHN facilitated 148 home repair loans worth almost $2.5 million; from 1994 through 2003, NHN facilitated 463 mortgages worth over $64.1 million. Since 2002, NHN has saved over 50 families from becoming homeless by securing rent subsidies worth nearly $485,000. Since housing and money are inextricable, we also measure the difference we make in peoples' lives by giving them information and tools to take charge of their personal finances. For example, as a result of taking NHN's 10-hour course for homebuyers in 2003, community members reported the following change in their beliefs or behavior:

98% will make an appointment for personal counseling
93% will change the way they spend or save money
90% will change the way they plan for homeownership
79% will change the way they deal with their landlords
77% will seek different kinds of professionals for help
71% will look for a different kind of mortgage
71% will change the way they pay bills
56% will look for a different kind of home

NHN's outcome orientation is evident in the way we supervise staff, gather data and evaluate programs. Using a framework similar to the Logic Model, we track progress in each program area by the milestones that customers reach in the pursuit of their personal goals; success is achieved when the customer reaches the goal or gets a beneficial alternative. We

update program strategies based on our analysis of customer results. We created an integrated customer-tracking database to capture our results and the relationships among our activities. In addition to an unprecedented amount of demographic information, the database captures the date that each customer achieves each milestone along her/his pathway towards the target. It generates reports for all of our funding contracts, and we can customize it as needed. Most importantly, it unifies all of our counseling and fundraising activities so that we can see and analyze our impact on and importance to the community at a glance. For example, we might see that Ms. A took NHN's money management class while looking for a job, used our help to get a State rent supplement, and two years later enrolled in a homebuyers course. We might see that Mr. B used NHN's referral to secure a business expansion loan, opened a shop on our neighborhood's main shopping street, and now wants to buy a house. We might also see that Ms. A introduced Mr. B to NHN and that Mr. B contributed $50 towards our annual appeal.

NHN is a HUD-certified local housing counseling agency. We have received housing counseling grants each year since 1999.[1] Our experience in applying for and administering the HUD grants has generally been excellent, though we may be better equipped than many organizations to handle the complexity of the proposal writing, data reporting and cash flow management processes. The annual application process has no guarantee of success or grant amount, produces a 50-page document, and the results typically are not known until the end of the first quarter of the contract period. Once a grant is awarded, the fiscal vouchering process is a delight, there are only two simple narrative reports, and the quantitative data is now reported only at the end of the contract. Collecting, managing and reporting the quantitative data can be quite daunting, however.

The HUD housing counseling grant program offers ample flexibility to adjust to changing community needs. Agencies may select which eligible activities to conduct, and the definitions of those activities are quite broad. Group activities such as classes on tenants' rights or money management qualify as well as individual counseling sessions.

NHN's housing counseling work is also funded by the housing departments of New York City and New York State, by Neighborhood Reinvestment Corp., by the NY Mortgage Coalition and its member banks, and by foundations and individual donors. We distinguish our HUD-

[1] Grant amounts: Federal Fiscal Year 2004 = $48,004; FFY 2003 = $22,020; FFY 2002 = $19,465

funded work by geography: the HUD housing counseling grant pays for services to residents of Brooklyn (a.k.a. Kings County) *excluding* zip codes 11215, 11220 and 11232. These zip codes represent the area immediately surrounding NHN's office and contain about 5% of the Brooklyn population; services to this area are paid for by State and City contracts. The types, quality and complexity of services, level of effort, outcome ratios and counseling costs experienced by HUD and non-HUD funded clients are almost identical, with the major exception of tenant services. The bulk of NHN's tenant services are funded by local government and therefore most tenants are not counted as HUD clients.

The committee is particularly interested in foreclosure counseling. NHN counsels homeowners on how to restructure debt and seek loan forbearance or pursue other loss mitigation strategies, with a special focus on helping victims of predatory lending. Homeowners who miss FHA mortgage payments are advised by their lenders to contact HUD's Housing Counseling Clearinghouse, which refers them to local agencies with nearby zip codes. This process relies on homeowners to open their mail and make at least two calls; often the homeowners delay because the mortgage delinquency is just one of many disheartening factors creating stress and chaos in their lives. Precious time is often lost – counseling is most effective in the first three months of delinquency but is very difficult after lenders start legal proceedings (typically in the fourth month).

The committee is particularly interested in partnerships with commercial institutions – they are very important to NHN's homebuyer and homeowner counseling programs. These partnerships give counselors legitimacy in the eyes of the public, and enable us to offer real products – not just words – to people who might otherwise succumb to aggressive marketing by predatory lenders. We have a written agreement with the NY Mortgage Coalition that empowers us to package mortgage applications for nine major banks. NHN provides one-on-one pre-purchase counseling including advice on: budgeting for mortgage payments and money management; alternative sources of mortgage credit; how to identify and avoid predatory lending practices. In an initial counseling session NHN reviews the customer's income, assets, and credit and prepares a pre-qualification form to explain the customer's buying power. For those who want additional assistance, NHN provides a budget form as 'homework' and reviews it at the customer's return visit. NHN also helps prepare letters to creditors to request confirmation of cleared accounts and errors, as well as letters to credit bureaus to ensure that corrections are

made. These efforts often lead to improved FICO scores for the customers. Once the customer has identified an affordable property to buy, NHN calls three or four of the nine banks that are part of the NY Mortgage Coalition to determine which mortgage products are available and appropriate, explains the products to the borrower so that they can choose where to apply, and schedules an appointment with the loan officer to complete Form 1003. If a conditional commitment is issued, NHN helps gather remaining documents to clear the conditions with goal of speeding the closing.

The committee is particularly interested in programs that help people look for rental housing. The need for pre-rental counseling is overwhelming: Brooklyn's rental vacancy rate was only 2.73% in 2002, according to the NYC Rent Guidelines Board, and an individual earning the minimum wage would have to work 154 hours per week to afford an average one-bedroom apartment in NYC or would have to earn a wage of $19.83/hour to afford a typical two-bedroom apartment. This year our goal is to design and deliver at least one new group education session for social service workers as well as residents about how to obtain rental housing, with topics such as fair housing rules, the role of credit reports, and the value of waiting lists. NHN's pre-rental counseling focuses on helping people apply to waiting lists and providing referrals to the homeless shelter system. Because of the long waiting lists, we do not anticipate that anyone we help apply for Section 8 or public housing will be successful within the year. We tell apartment seekers about application lotteries for new subsidized housing but follow-up with them is difficult as they do not have telephones or permanent addresses. In general, I believe that more pre-rental counseling is provided in homeless shelters than in housing counseling agencies.

By contrast, at NHN we focus on preventing homelessness by helping people to afford and improve their current rental situations. The median annual household income of NHN's tenant customers is $6,930; 44% of NHN' s tenant counseling cases involve problems making rent payments. Due to the high cost of housing and the excess of demand over supply, displacement counseling is one of NHN's most important types of work.

Others testifying today are better qualified than I to address the capacity of the national network of housing counselors. I would self-interestedly note that funds should not be taken away from programs that support the staff and general operations of local housing counseling agencies in order to support technical assistance and capacity building programs. I would also

note that some kinds of technical assistance and capacity building are more necessary and helpful than others. We have plenty of access to assistance on fiscal management, board governance, fundraising and other issues that affect all nonprofits. More could be done to address the unique needs of housing counseling agencies.

For example, to manage our partnerships with commercial institutions, we must continuously become more efficient, knowledgeable and professionally skilled in order to meet our partners' increasing expectations. For example, since 1997 the NY Mortgage Coalition has set a soft goal that each nonprofit housing counseling agency place 50 loans per year, then raised the goal to 60, then placed agencies that didn't reach the goal on probation, then cancelled contracts for agencies that didn't reach the goal, then added a new goal that each nonprofit counsel at least 300 new homebuyers per year. To help us meet these expectations, NHN is receiving superb technical assistance from Neighborhood Reinvestment in the person of management consultant Jose Perez. He is training and coaching our newly hired homeownership counselor in a unique, *pro bono, ad hoc* partnership with Israel Perez Jr. (no relation), a mortgage officer at JP Morgan Chase and a member of NHN's Board of Directors.

I hope that this testimony adequately addresses the committee's interests. To put a more human face on the ideas I have presented, I offer three snapshots of NHN's real housing counseling work:

NHN offers all housing services in both English and Spanish, enabling us to serve Brooklyn's growing Central American community. Wilda and Teofilo emigrated from Ecuador many years ago. He became a US citizen and she remained a legal resident, but they never mastered English. They were living in an illegal, one-bedroom, basement apartment when a local "one-stop shop" (where the realtor, lender and other professionals all work together) offered them a 9% mortgage for a $149,000, single-family house and pressured them to sign a contract of sale immediately. Zuleika, NHN's counselor provided detailed financial counseling in Spanish and drew on her own heritage to create a relationship of trust. She discovered that both had very high credit scores and could qualify for a much lower interest rate than they had been offered. Since their savings were slight, she suggested applying for a mortgage with a $4,000 instant rebate on the closing costs. She translated all of the loan documents and walked them through the process of selecting a lawyer and getting to closing. Altogether, they paid less than $10,000 in downpayment and closing costs for a 30-year loan at 6.25%. After the closing, she helped the family understand correspondence from their new homeowners association. Recognizing that the process would have been easier if the bank had provided Form 1003 – the standard mortgage application – in Spanish, we downloaded it from the Internet and now use the bi-lingual version with all customers.

Mr. Jorge Gonzalez has lived in his apartment for 31 years – it was his parents' home and he was born there. Three years ago NHN helped him prove that he had a legal right to a lease after his parents passed away. On a recent Monday morning, the NYC Marshall walked in, ordered him to leave the apartment, and changed the locks – he was being evicted without any advance notice! Mr. Gonzalez called NHN and Francisco (our tenant counselor) urged him to rush to Housing Court for an "Order to Show Cause." He was able to get the case onto the Court calendar for 2:30 that afternoon. Francisco rushed out of the office to join Mr. Gonzalez in Court. The landlord's attorney got there too, and asked the Judge to adjourn the case until Wednesday morning so that he could bring a witness to prove that Mr. Gonzalez had been properly served with notices and petitions. For two days Mr. Gonzalez was homeless and had no access to his belongings. Wednesday morning, Francisco and Mr. Gonzalez went to Court. They explained to the judge that, even though the building is covered by City and State laws requiring reliable mail delivery, the building doesn't have any mailboxes. They explained that, *if* the landlord served the tenant with court papers, there was a good chance that the landlord (who lives on the first floor) had *intercepted* those papers and prevented the tenant from seeing and acting on them. Mr. Gonzalez added that he thinks the landlord wants him to vacate the apartment because his rent is only $535 while similar apartments rent for over $1,500. The witness for the landlord did not show up in Court. The judge ordered the landlord to give Mr. Gonzalez the new keys to his apartment within one hour, and Francisco happily saw his client walk back into his own home.

Inez, NHN's senior housing counselor, devotes extraordinary amounts of time trying to help elderly and disabled homeowners solve complicated housing problems. For example, 68-year old Evelyn came to NHN in May 2002 for help with a broken water main, and Inez discovered over the course of many conversations that she was behind on her utility bills and credit cards and was supporting three generations on Social Security and PA. Inez suggested that Evelyn consider a HECM because she could not qualify for other home repair grants or loans. After extensive, repeated sessions, Inez became concerned that the family might misappropriate the HECM funds and spent additional time working out payment options and budgets. However, Evelyn ultimately decided to borrow money from a personal contact as she had in the past.

In another example, Pota is a 70-year old homeowner who uses both a wheelchair and an oxygen machine. After a water main break, the City threatened to shut off her water, which would have been very dangerous to her health. We thought that funds to repair the leak could be obtained within one week but instead it took two months. Inez determined that the homeowner could not afford to repay any loan, and negotiated with two other non-profit partners to secure both a grant and weatherization assistance. Both organizations were initially reluctant, and Inez had to process all of one organization's paperwork in order to get its agreement and leverage the second grant.

RESUME OF **LISA-NICOLLE GRIST**, EXECUTIVE DIRECTOR
NEIGHBORS HELPING NEIGHBORS, INC.
443 39TH STREET, SUITE 202 * BROOKLYN NY 11232
TEL. 718-686-7946 X 11 * FAX 718-686-7948 * LN.GRIST@NHNHOME.ORG

Summary: a results-oriented community development professional with over 15 years of local and international experience in housing counseling and advocacy, real estate development, property management, fundraising, strategic planning, research, program design, board development and personnel leadership. NYC native, known for being cooperative, hard-working and articulate.

EDUCATION:

Harvard University, John F. Kennedy School of Government – Senior Executives in State and Local Government Program, 2004. Fannie Mae Fellowship.

Princeton University, Woodrow Wilson School of Public and International Affairs – Master of Public Affairs and Urban and Regional Planning, 1992. Association of Black Princeton Alumni service award, Sloan Foundation Fellowship

Yale University – Bachelor of Arts, Political Science, 1987. Summa Cum Laude, Phi Beta Kappa

Professional development certificates: Rensselaerville Institute, Neighborhood Reinvestment Training Institute, National Community Reinvestment Coalition, National Society of Fundraising Executives.

PROFESSIONAL EXPERIENCE:

Executive Director, July 1997 - present
Neighbors Helping Neighbors, Inc., Brooklyn, NY

- Diversified funding and expanded programs, doubling both revenue and expense budgets.
- Improved and supported Board of Directors' capacity for governance and fundraising.
- Initiated and largely wrote a five-year strategic plan that focuses on achieving results, creating social change and ensuring financial growth.
- Created information management systems, enhanced and employed information technology.
- Designed innovative programs and curricula. Wrote proposals, reports and publicity materials.
- Hired and supervised more than 40 employees, consultants, contractors and interns over five years, a maximum of 13 at one time.
- Negotiated lease, designed layout and managed move to new office space.
- Functioned as CFO, IT specialist, benefits administrator, grant writer, contract manager, supervisor and spokesperson.

Project Manager, Oct. 1993 - July 1997
New Destiny Housing Corp. / Victim Services Inc., NYC NY

- Built a 35-bed emergency shelter for survivors of domestic violence in Staten Island and primed most components to build a 12-unit apartment building in Bedford Stuyvesant.
- Prepared and monitored operating and capital budgets, wrote proposals, administered funds.
- Identified new real estate sites for special-needs housing; analyzed project feasibility; planned development sequence and coordinated team of staff and consultants.
- Assisted property management for 24 rental apartments and one social service facility.
- Lead staff during nine-month vacancy in executive director position.
- Helped create board of directors, fiscal, filing and personnel systems to incorporate new non-profit.

Director, Comprehensive Community Revitalization Program, June 1992 - Sept. 1993
Phipps Community Development Corporation, Bronx, NY

- Launched program to link property management, organizing and social services in West Farms.
- Convened and facilitated community planning committees to address issues of open space, housing, safety and self-esteem.
- Wrote three-year strategic plan, grant proposals, fact sheets, progress and financial reports.
- Supervised tenant organizer and immunization campaign coordinator.

Intern / Independent Study, Feb. - June 1992
National Housing Institute, E. Orange, NJ

- Analyzed the budgetary cost of tax advantages for homeownership in 26 states.

Volunteer Consultant, Jan. - June 1991
National Cooperative Housing Union, Ltd., Nairobi Kenya

- Drafted training manual for housing cooperative leadership committees. Topics included: cooperative principles; financial management; development process; legal tenure; building materials.

Project Assistant, Human Resources Development Office, and Regional Housing & Urban Development Office, Sept. 1989 - Dec. 1990
U.S. Agency for International Development, Nairobi Kenya

- Provided technical assistance and training to local non-profits for proposal writing, project monitoring and evaluation.
- Evaluated two community-based slum-upgrading projects.
- Coordinated and helped facilitate regional workshop on the private sector.
- Researched urbanization statistics and local government structures.
- Researched and made recommendations for US funding activities to Kenyan management training programs and Tanzanian women's legal rights.

Intern, Urban Poverty Program, June - Aug. 1989
Ford Foundation, NYC NY

- Researched and proposed analytical models for community-based low-income housing and social service projects in the U.S.

Special Assistant to the Chairperson/Director, and Coordinator, City Property Dispositions June 1987 - Aug. 1988
New York City Planning Commission/Department, NYC NY

- Served as liaison between chief executive and middle managers to ensure efficiency of technical and policy operations. Managed agency correspondence; drafted executive letters and memos.
- Managed public review for disposition of city-owned vacant lots and buildings; supervised technical assessment of properties; gathered comments from Community Boards and other public agencies.
- Briefed Commission at public meetings; wrote Commission reports.

SAMPLE VOLUNTEER ACTIVITIES:

- Association for Neighborhood & Housing Development (trade association), Board Treasurer
- Sunset Park Business Improvement District, NYC Comptroller's Representative
- Fifth Avenue Committee (community development corporation), Board Member
- New Destiny Housing Corp. (special needs housing developer), Board Member
- Park Slope Food Co-operative (member-owned grocery), real estate expansion project committee

Testimony for Housing Counseling Hearing

General Comments

Good morning, I'm Rodney Jordan, vice chair of the board of commissioners of Norfolk Redevelopment and Housing Authority in Norfolk, Virginia. With me today are Lori Burden and LaShawn Fortes of the NRHA Home Ownership Center, and in the audience is Robert Jenkins, our deputy executive director.

As one of the oldest redevelopment and housing authorities in the country, we at NRHA are well aware of the benefits of raising the rate of homeownership. Not only does it strengthen Norfolk's neighborhoods and help maintain a healthy economy, it also contributes to wealth creation and has positive effects on our city's social and educational cultures.

That's why we created the NRHA Home Ownership Center. It's just one of the many innovations we've brought to our industry in recent years. Another example of how NRHA innovates is that we were the only housing agency in the nation to be awarded an allocation of New Markets Tax Credits by the U.S. Treasury in the program's first round. These tax credits are enabling us to bring amenities such as fitness centers and grocery stores into the neighborhoods we build, and those amenities in turn attract the homebuyers that we counsel to those neighborhoods.

Today through our one-stop Home Ownership Center, we demonstrate our commitment to bringing the Great American Dream of homeownership to more people every year, especially minorities. We do this by providing comprehensive and customized homeownership counseling to any prospective Norfolk homebuyer. Our center is designed to link families from all economic backgrounds to the variety of housing choices available in Norfolk, including the homes that we build.

The counseling we offer provides potential homebuyers with the tools and resources they need to become homeowners. We have programs that cover everything involved in the process of purchasing a home, from restoring credit and finding the right mortgage, to builder selection, home inspections, and foreclosure prevention. To bring a complete range of homebuying services to our clients, we've formed partnerships with banks, developers, mortgage companies, attorneys, real estate firms, and other government agencies.

Another important benefit is that through our Home Ownership Center we're able to match buyers with homes in the neighborhoods that we build as redevelopment authority. Another plus is that our center also creates demand for other NRHA services, such as rehabilitating homes and selling real estate.

• *What benefit does housing counseling provide in the homeownership and rental process?*

Our housing counseling ultimately increases homeownership in Norfolk, especially among minorities, by educating potential homebuyers about the issues involved in buying and owning a home. Our goal is to remove the barriers to homeownership by preparing clients to become mortgage-ready, enabling them to pre-qualify for loans, and informing them of the range of special financing and mortgage programs available. The post-homeownership counseling we offer enables clients to handle issues that may come up after loan closing. For some of our clients, this counseling is the first time they've learned anything about homeownership, because they come from families caught in a cycle of poverty that has prevented previous generations from becoming homeowners.

• *What types of counseling does your organization provide? Approximately how many families and individuals do you serve?*

Our housing counselors are certified through the Neighborhood Reinvestment Corporation's NeighborWorks Institute and by the Commonwealth of Virginia. We offer a 22-month counseling program through our five Homebuyers Clubs, six hours of group counseling through the Virginia Housing Development Authority (VHDA) homebuyers program, and individual counseling customized to each client's needs. We now provide counseling to more than 350 families and individuals annually. Of those, more than 50 are considered mortgage-ready, and least half of those end up buying new homes that we build in mixed-income neighborhoods. For example, in our new neighborhood of Westchurch, we have former public-housing families living next door to homeowners who earn six-figure salaries, as a result of our homeownership counseling.

• *Are you a HUD-approved agency? If so, what HUD counseling program do you utilize? What has been your experience in administering HUD counseling programs?*

Although we are not a HUD-approved agency, our mission is comparable. As with those agencies, we give advice on buying a home, renting, defaults, foreclosures, and credit issues. Our counseling programs are very similar to those offered by HUD-funded agencies and cover virtually all of the same issues.

• *What types of foreclosure counseling programs do you administer or are you aware of? Please explain the process for how a family or individual can participate in a foreclosure counseling program.*

Preventing foreclosure is addressed through the homebuying classes we offer in conjunction with VHDA. For more intensive foreclosure counseling, we refer our clients to one of our Home Ownership Center partners, Catholic Charities of Hampton Roads.

• *Do you provide, or are you familiar with, housing counseling programs that assist those families looking to rent affordable housing? If so, please outline your participation and benefits of housing counseling as it relates to the rental market.*

Yes, for our public-housing clients who are relocating, our agency provides counseling through a program called Smooth Moves.

• *Does your organization provide counseling services separate from HUD-sponsored counseling programs? If so, please explain what kind of counseling you provide?*

We offer a 22-month counseling program through our five Homebuyers Clubs, six hours of group counseling through VHDA's homebuyers program, and individual counseling customized to each client's needs.

• *How do you measure and account for success in the implementation of the housing counseling programs you administer?*

One important way we measure our success is through the number of clients who graduate from our counseling programs. We also track our clients' successes through their improved credit scores, increased savings and reduced debt, loan pre-qualification, and the ultimate goal of achieving homeownership.

• *Do you believe that there is flexibility in housing counseling programs to allow non-profits and other counseling providers to adjust to changing community needs, e.g. homeownership versus rental housing opportunities?*

Yes, the housing counseling we provide for families who rent is similar to the counseling we offer families who want to move into homeownership, although our homeownership counseling is more extensive.

• *What is the capacity of the current network of counseling providers and what and how is it necessary to account for additional technical assistance or capacity-building? Will technical assistance and capacity-building detract from providing "retail" counseling to community members?*

Because the NRHA Home Ownership Center is a local, "grass roots" counseling center, we work with people on an individual and neighborhood level. Our counselors visit schools and churches and have close relationships with neighborhood and civic associations.

• *What types of partnerships do non-profit and commercial institutions create to address issues of consumer education, particularly in light of questionable or not-so-favorable lending terms to unknowing consumers?*

The classes we offer in conjunction with VHDA educate our clients about the issues of questionable and predatory lending, as well as foreclosure prevention. Even if the financial institutions we partner with didn't require that these issues be addressed, we believe that it's our responsibility to educate and inform our clients about these unfair lending tactics.

Testimony of Gary Obloy before the Subcommittee Housing and Community Organizations
March 18, 2004

Good Morning. My name is Gary Obloy. I am the Executive Director of the Community Action Commission of Belmont County, Ohio. I wish to thank Chairman Ney and members of the Subcommittee on Housing and Community Development for giving me the opportunity to address you today. I'd like to begin by describing for you the mission of the Community Action Commission and by explaining what we do in an attempt to improve the lives of the people we serve.

The Community Action Commission of Belmont County is a private non-profit organization, governed by an eighteen-member board. The Agency's mission is to combat poverty, its causes and consequences. The Community Action Commission administers over twenty federally, state and privately funded programs targeted to low and moderate-income residents of Belmont County. Specific programs include: LIHEAP, the Home Weatherization Assistance Program, and a Homebuyer Counseling Program.

I'd like to begin my testimony with a brief history of my organization's involvement in homebuyer counseling and education and then proceed to address the questions posed in the March 11, 2004 letter that invited my testimony.

In January 1995 the Community Action Commission's Governing Board adopted an effort to, "plan and implement affordable housing programs that are designed to address housing needs of low income individuals or families." The effort began with the receipt of a Community Housing Development grant from the Ohio Department of Development and the partnering with other community-based organization for the provision of homebuyer education classes and down payment assistance.

In January 1997, the Community Action Commission received a certification from the Department of Housing and Urban Development in First Time Homebuyer Education and for Home Equity Conversion Mortgages (HCEM), also known as reverse mortgages. In May 2000, the Community Action Commission received certification from HUD as a Local Comprehensive Housing Counseling Agency.

The U.S. Department of Housing and Urban Development has provided funding for the counseling services through direct grants to Community Action Commission. Additional funding has been obtained via subgrant agreements for HUD's Community Development Block Grant (CDBG), direct grants from the Housing Assistance Council, in-kind contributions from the Belmont County Board of County Commissioners, as well as the Community Services Block Grant (CSBG).

Activities conducted relative to housing counseling are measured quarterly through a Results Oriented Management and Accountability (ROMA) instrument which indicates

the level to which established goals are being achieved. Mid-term and Final reports are submitted to HUD's Philadelphia and Columbus offices via HUD Form 9902, Housing Counseling Agency Activity Reports.

Beginning March 23rd of this year, the Community Action Commission will begin the re-certification process for remaining a HUD certified Local Comprehensive Home Counseling Agency.

In regards to the specific issues and questions posed in the March 11th letter, our experiences show that Homebuyer Education and Counseling have proven to be an important and effective element in the purchase and retention of a home. Consumers who choose to purchase a home benefit by being able to position themselves to obtain affordable and financially manageable mortgages. They gain an understanding of the meaning and responsibilities of being a homeowner. Foreclosures among those who receive counseling and education services are rare.

The Community Action Commission's program provides services in four areas: homebuyer education, budget counseling, foreclosure prevention, and Home Equity Conversion Mortgages (HECM). Resource materials used include the HUD publication, "The Homebuyer Education and Learning Program Guide" (HELP), various handouts which have been compiled into booklet form, and a locally designed Power Point presentation.

Homebuyer education includes general sessions on:

Budgeting,
Home selection, which may include choosing a realtor or builder,
Financing, which includes discussion on finding the right lender, predatory lending
The **closing** process,
Knowing and understanding **credit**
Post closing, which includes insurance and home maintenance, and
Foreclosure prevention includes a discussion on the delinquency, default and foreclosure process with a focus on what to do in case you find yourself in a problem situation.

Budget counseling is offered on a one-to-one basis and is specific to each person or family. It includes debt and income analysis and discussions on ways to reduce household expenses.

Foreclosure prevention is also offered on a one-to-one basis. Much like budget counseling, it includes discussions and analyses of debt and income, the reduction of household expenses, and if needed, counselor mediation with the lender. In all discussions of debt reduction, such action is at the sole decision of the consumer.

HECM counseling normally occurs as a result of a call to the Community Action Commission. Following the call, interested consumers are sent information on Reverse

Mortgages and the HECM product, along with an application for program service. One-on-one sessions are scheduled, during which, qualifications for the loan are discussed. Following the completion of all required materials, the participant is provided with a HUD Certificate of HECM Counseling. The Community Action Commission's Affordable Housing Office remains available to the consumer throughout the HECM process.

Homebuyer Education and Counseling general sessions are offered eight times per year, with an average class size of 10. In 2003, 25 customers who attended homeownership sessions purchased their first homes. From 1996 to 2003 persons attending the Homebuyer Education and Counseling sessions have purchased 215 homes.

While the purchase of a home is a significant measure of success, it is not the sole indicator of the benefits of a home ownership counseling program. For the period October 1, 2003 through March 13, 2004, the Community Action Commission has served and continues to assist persons whose goal is to someday own a home of their own. Currently twenty-seven (27) families are in a pre-purchase status, meaning they lack a sufficient down payment, or have not been able to identify a home which is financially affordable. The status ranges up to 18 months. Thirty-one (31) families have been working on credit issues for the last six to twelve months. Eleven (11) families have contacted the Community Action Commission after becoming delinquent. Seventeen (17) families who have purchased a home have contacted the Agency requesting additional information on such topics as home repair and insurance. Twenty (20) families made the initial contact but have yet to complete an application.

For the grant year ending September 30, 2002, the following was reported on the HUD 9902 Housing Counseling Agency Fiscal Year Activity Report:

Completed Homebuyer Education Workshop	96
Completed Post-Purchase Homeowner Workshop	23
Sought Help with Fair Housing Issue	5
Sought Help/Attended Workshop on Predatory Lending	7
Purchased Housing	28
Client will be Mortgage Ready within 90 days	34
Client will be Mortgage Ready after 90 days Receiving long-Term Prepurchase Counseling	3
Decided not to Purchase Housing	9
Obtained a Home Equity Conversion Mortgage (HECM)	2
Received Consumer Loan (Converting home equity into cash)	2
Initiated Forbearance Agreement/Repayment Plan	3
Currently Receiving Foreclosure/Prevention/Budget Counseling	1
Mortgage Foreclosed	1

Normally, efforts directed toward foreclosure prevention occur after the customer has received written notification from the lender. Activities undertaken by the Community Action Commission include explanation of the delinquency-default-foreclosure process.

In certain circumstances, the customer has granted permission to the CAC Counselor to mediate with the lender, which may result in a repayment plan. In the State of Ohio, the foreclosure process takes approximately eleven months from the time of notification to the Sheriff's Sale of real estate.

Participants are also schooled in renting versus ownership. A participant's involvement in the Community Action Commission's Affordable Housing Program includes an analysis of the household income and expenses, a credit report, and discussions on the impact of an immediate purchase and as opposed to remaining a renter. If the participant chooses to continue renting, he/she is provided with information aimed at increasing his/her knowledge of their rights and obligation in the landlord/tenant relationship. If safe and affordable rental housing becomes the goal of the participant, a referral is made to the Belmont Metropolitan Housing Authority.

One question asked in the March 11th letter asks, "Does you organization provide counseling services separate from HUD-sponsored counseling programs? If so, explain what kind of counseling you provide." The Community Action Commission is able to provide Homebuyer Counseling only because it pools resources from a number of sources. Funding provided by the HUD Housing Counseling Program is not sufficient in and of itself to sustain the Counseling Program offered by the Community Action Commission. Additional funds to support the program have been leveraged through the Belomar Regional Development Council for Community Development Block Grant funds. CDBG funds are paid to the Community Action Commission after, and only after a customer purchases a home. In the past three fiscal years, the Housing Assistance Council has provided funding to support efforts undertaken by the Community Action Commission's Affordable Housing Program. The Belmont County Board of County Commissions provides free office space for the program and counseling activities. Finally, Community Services Block Grant (CSBG) funds are used to support salaries and fringe benefits of staff members.

Regardless of the funding source, the curriculum for Homebuyer Education Workshops, the level counseling, and the level of intervention remain the same.

The Community Action Commission views success with its housing counseling efforts not only in terms of homes purchased, but also in delivering services which are needed by the customer. Part of the value of homebuyer education workshops conducted by the Community Action Commission is that participants are given the opportunity to objectively judge whether or not purchasing a home is in their best interest. Statistics show that if they choose to do so, their success in maintaining ownership is strengthened. Other successes can be seen with the customer who is motivated to purchase but doesn't have the down payment, or is experiencing credit problems. He/she is provided with a mechanism to address issues that may lead to future ownership. Those who find themselves in a financial dilemma have somewhere to turn and someone to intervene on their behalf. Success has taken on many different looks and includes the smiles of those who just purchased a home and the smiles of those who saved their most prized possession, their home.

The Community Action Commission of Belmont County is one of ten Ohio recipients of HUD Housing Counseling Program funds awarded during the most recent funding cycle. The nearest Ohio based HUD certified counseling agency is located in Canton, Ohio, which is approximately 100 miles northwest of Belmont County. Referrals for counseling services have come from the northern panhandle of West Virginia and from western Pennsylvania. Homebuyer education workshops are filled and a waiting list for future classes has been established. The Community Action Commission would welcome the ability to build further capacity particularly with respect to continued staff training in Home Equity Conversion Mortgages, and continual updates relative to changing laws, rules and regulations which pertain to credit reporting, insurance underwriting, and foreclosure prevention.

Key partnerships to the Community Action Commission's offering of a successful Affordable Housing Program and Homebuyer Counseling are banks. The relationships are mutually beneficial in that, the counseling program offered by the Agency enhances the ability of banks to make good loans. Program participants are educated about banks and lending practices and are made aware of what banks require from potential loan customers. The program also serves to educated participants who might otherwise look to sub prime lenders for loans. Furthermore, banks, which participate in Federal Home Loan Bank funding, can provide ideal opportunities for homebuyers through Welcome Home Loans that have lower interest rates and down payment assistance. Additional banking resources include the Ohio Housing Finance Agency, which through participating banks offers First Time Homebuyer loans.

In summation, the Community Action Commission has been involved in Home Buying and Home Ownership Counseling for nearly eight years. Through the concerted efforts of many partners, we as the community of Belmont County, Ohio have witnessed many families become homeowners. We applaud those families and individuals for their grit, hard work, and dedication in claiming a piece of the American Dream. We look forward to a continuing relationship with funding agencies such as the Department of Housing and Urban Development and urge you to consider enhancing the federal governments efforts in the arena of homebuyer education and counseling.

Once again, thank you for opportunity you afforded me today. I'll be happy to answer your questions.

Testimony of

America's Community Bankers

on

Successful Homeownership and Renting Through Housing Counseling

before the

Subcommittee on Housing and Community Opportunity

of the

Committee on Financial Services

of the

U.S. House of Representatives

on

March 18, 2004

William G. Smith
President and CEO
Mutual Community Savings Bank
Durham, North Carolina

My name is William Smith. I am President and CEO of Mutual Community Savings Bank in Durham, North Carolina. I am here today representing America's Community Bankers and the MBank Council. ACB represents the nation's community banks of all charter types and sizes. ACB created the MBank Council in December 2001 as a standing committee within ACB. The MBank Council represents ACB's minority-owned institutions.

Mutual Community Savings Bank has $98 million in assets. We are 82 years old and one of only three African-American financial institutions in the State of North Carolina. Mutual is the premier housing lender to underserved and emerging communities. We are a full service bank offering an array of competitive products and services to our customers and our community. We are proudly a community bank.

Minorities clearly have not participated fully in the homeownership dream. The 75.5 percent homeownership rate among whites is at an all time high. But, even though minority homeownership is also at a historic high, just under half of all minorities own their own home. The racial divide in homeownership remains wide: only 49.4 percent of African Americans, and 47.7 percent of Hispanics, own their own homes.

Partnerships

As part of Mutual's vision to educate customers before they are ready to buy a home, Mutual implemented the FDIC's Money Smart program in October 2002. Mutual was very impressed with the Money Smart module because it demonstrated a well thought out approach to financial education. It went right to the heart of the community to educate consumers on the importance of financial literacy as a crucial first step towards homeownership.

Mutual has three branches. To further our financial education and homeownership campaign, all branch managers must conduct a financial education session in their branches. I have charged our branch managers to actively engage customers unfamiliar with the importance of financial education. I want all my customers to understand the importance of sound financial management, and promote those values to their families.

Benefits and Necessity of Housing Counseling

Mutual hired a "trainer" to assist employees on using the Money Smart module. This was the first step in assisting my customers on buying a home. On July 17, 2003, Mutual conducted one of our first financial education and housing counseling sessions at Maple Temple Church in Raleigh, North Carolina. There were approximately 20 parishioners, which included parents and students. They were very engaged in understanding the two most important steps needed before one actually is granted a mortgage: the importance of understanding your credit, and the value of good credit when one qualifies for an interest rate.

This housing counseling education is especially important due to the increase in foreclosures. As you know, the highest foreclosure rates are for so-called subprime loans, which are disproportionately made in low-income and African-American neighborhoods. According to the

Mortgage Bankers Association's Delinquency Survey, in 2003 the foreclosure rate for conventional prime loans was 0.53%, but for conventional subprime loans it was 6.6 %.

In ACB's 2004 Real Estate Lending Survey, ACB asked members if their banks required homeowner education and/or housing counseling for any of their current home mortgage and/or consumer lending products. Of 401 responses nationwide, 52% required counseling for at least some loan products. Of those that did not require counseling, about half strongly recommended counseling. Those banks that do not require or strongly recommend homeowner education often cited the following reasons: it is not available in the area, it is not convenient, or it is too costly.

I believe that housing counseling education is a necessity. Such counseling should be made more universally available, and encouraged by efforts to streamline the process and lower cost. Therefore, I am a strong supporter of H.R. 3938.

H.R. 3938, Expanding Housing Opportunities through Education and Counseling

Scope

Specifically I agree with the language in the bill on the "***scope of homeownership counseling***" that the Department of Housing will undertake. The entire process of homeownership needs to addressed. As the bill says: "***the decision to purchase a home, the selection and purchase of a home, issues arising during or affecting the period of ownership of a home (including refinancing, default and foreclosure, and other financial decisions), and the sale or other disposition of a home***" all need to be considered by potential homebuyers.

Homeownership consists of all the above and is not limited to just obtaining a mortgage.

Web Site and Toll free Telephone Numbers

I commend the authors of the bill for including language to establish a toll free telephone number and a Web site, which individuals can access for homeownership information. The toll free number will allow consumers to access information at any time of day, and the web site will provide a one-stop shop for finding answers to commonly asked questions in the homebuying process.

Outreach

In addition, the language in the bill that addresses outreach to vulnerable populations is essential. This multimedia campaign will certainly make all individuals aware that it is advisable to obtain homeownership counseling from a reliable source-- before seeking a mortgage. The consumer must know the process of owning a home and the responsibility that is needed when making this major decision.

Conclusion

In closing, owning a home is one of the greatest accomplishments a person can achieve, and educating consumers is one of the greatest responsibilities we in the private sector can undertake to decrease foreclosure rates and boost homeownership throughout our nation.

Thank you.

NATIONAL URBAN LEAGUE

Successful Homeownership and Renting through Housing Counseling
Hearing on H.R. 3938,
the Expanding Housing Opportunities through Education and Counseling Act of 2004
Before the
Financial Services Subcommittee on Housing and Community Opportunity
United States House of Representatives

TESTIMONY
Concerns about Housing Counseling

March 18, 2004

By

William E. Spriggs
Executive Director, National Urban League Institute for Opportunity and Equality

The Urban League is the nation's oldest and largest community-based movement devoted to empowering African Americans to enter the economic and social mainstream.

The Urban League movement was founded in 1910. The National Urban League, headquartered in New York City, spearheads our nonprofit, nonpartisan, community-based movement. The heart of the Urban League movement is our professionally staffed Urban League affiliates in over 100 cities in 34 states and the District of Columbia.

The mission of the Urban League movement is to enable African Americans to secure economic self-reliance, parity and power and civil rights. On behalf of the League, I thank Chairmen Ney and ranking member Congresswoman Waters for this opportunity to share the thoughts of the League on this important topic. The Housing Counseling program of the National Urban League, under the direction of Marvin Owens, Vice

President of the League for Economic Development and Housing, and Cy Richardson of his staff were instrumental in pulling together this testimony.

As homeownership opportunities for underserved families have increased, issues of affordability, mortgage delinquency and home loss have also increased alongside these gains. Housing counseling can address some of these causes by building relationships with homeowners and prospective home purchasers or renters, addressing a broad scope of underlying issues and facilitating comprehension of the risks, rewards and effort entailed in homeownership.

Our affiliates provide pre- and post-purchase counseling, loss mitigation and mortgage delinquency education and training as well as rental housing assistance to those seeking affordable apartments. In 2003, National Urban League affiliates collectively served more than 19,000 clients.

As an initial partner in the design of the Housing Counseling program with HUD and other national nonprofits (1968), The National Urban League has been designated as a "National Intermediary." Our affiliates are certified to do this work through us. Our experiences with the program have been good with regard to implementation and we have generally found that education and counseling services have broad value for homeowners and can improve the market by facilitating effective consumer use and demand for a very wide range of housing and mortgage products.

One of the key areas our affiliates concentrate on is mortgage delinquency and foreclosure counseling. We primarily offer delinquency counseling, which specifically targets homeowners who are delinquent in repayment of their mortgage and who may or may not have been served a notice of foreclosure. Delinquency counseling usually occurs

in one-on-one settings. The National Urban League seeks to assist delinquent borrowers as opposed to efforts from loan officers to structure a repayment plan.

Our program also includes components that assist families looking to rent affordable housing. The affiliate serves as an information clearinghouse for affordable rental opportunities and, after determining that near-term homeownership is not desired or appropriate for a family, makes a referral on behalf of the family for the rental while keeping the family in a database and contacting the family at a later date to encourage homeownership if requested. Housing counseling greatly benefits the rental market by moving renters to homeownership thereby freeing up affordable units for other families to move up the housing ladder.

The NUL does offer a narrow set of housing counseling services in partnership with Fannie Mae, Freddie Mac, the Bank of America and Chase Bank. With those partners, separate from our HUD funded housing counseling program, we offer a program to help potential homeowners qualify for mortgages. And, National Urban League affiliates, separate from our HUD counseling program, operate first-time homeowner programs in ways that complement the HUD program. We encourage affiliates to develop robust and comprehensive housing programs ranging from financial literacy to first-time homebuyer classes to housing counseling to broader asset development strategies such as real estate investments and capital home improvements.

We measure success by a number of qualitative and quantitative indicators. First, we gauge the efficacy of the program against the NUL's housing policy goals, which include 1) preserving and expanding the supply of good-quality housing units, 2) making housing more affordable and more readily available, 3) promoting racial and economic diversity

in residential neighborhoods and, 4) linking housing with essential supportive services, etc. Some of the short- and long-term quantitative measures include the number of loans and people served, the number of new homeowners, the number of households relocating with housing search assistance, the number of very low, low- and moderate-income households paying more than 50% of income for housing, etc.

If a nonprofit's program is indeed "comprehensive" in nature and application, then inherent to its design should be the type of flexibility to adjust and shift emphasis from a strictly homeownership-focused program to one which primarily highlights rental housing opportunities. However, the limited funds that are available, does strain the resources of non-profits in meeting the needs of delinquency counseling. That program is more time intensive, and as the share of families needing that help increases, it is necessary to have a program designed to make the funding stream flexible enough to let the non-profit respond.

The general consensus is that the capacity of the current network of counseling providers is somewhat lacking and that additional leadership is needed from HUD. This leadership is particularly necessary in the areas of capacity building, primarily in the area of technical assistance and training for local nonprofits in the field. And, that leadership can only be asserted through increased funding for a capacity building program. Specifically, we understand that homeowners need a continuum of services, yet many nonprofits as well as HUD, to a certain degree, are too focused on education and counseling. Technology based solutions, like computer counseling software programs that help do counseling, follow in that mold of being too narrow. Counseling for families that are struggling with mortgage delinquency is truly a one-on-one process, and

technology based solutions would not be a substitute. So, it would not be helpful to have creditors direct families to software programs. Instead it would be far more helpful to have creditors direct families to non-profit housing counseling agencies or a toll free number that would list one-on-one counselors. Developing models that are integrated with the private sector will require significant coordination from actors such as intermediaries (ex. NUL, the National Council of La Raza, etc.), foundations and industry associations. The role of community based organizations, as an intermediary is essential to the success of such an approach. HUD would need to continue to partner with, and actively include CBOs in all advisory functions. Finally, talk about new models must be backed up by a real commitment of resources. And, the creation of computer software and studies, while useful, should not replace funding for actual counseling services. Funding for these new initiatives must be new funding.

A number of partnerships are created by nonprofits housing counselors. Among these strategic alliances and stakeholders are: neighboring homeowners, home-improvement retailers such as Sears and Home Depot, building contractors, property and casualty insurance companies, real estate agents, retail lenders who may underwrite the costs associated with offering first-time homebuyer classes and seminars, depository institutions who have added incentive to reach underserved markets as a result of CRA, and finally owners of mortgages such as the GSE's Fannie Mae and Freddie Mac.

Again, thank you for this chance to share the successful record of the National Urban League in housing counseling.

NeighborWorks®
FOUNDER

Written Testimony of

Kenneth D. Wade
Executive Director

Neighborhood Reinvestment Corporation

Creating Educated Homebuyers:
A Comprehensive Approach

Submitted to the U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and
Community Opportunity

March 18, 2004

Good afternoon, Subcommittee Chairman Ney, Ranking Member Waters, and members of the subcommittee. My name is Ken Wade, and I am the executive director of the Neighborhood Reinvestment Corporation. I am here today to speak with you regarding the efforts of the Neighborhood Reinvestment Corporation and its affiliated NeighborWorks Network (collectively known as the NeighborWorks System) to educate potential homebuyers, sustain homeownership gains, and provide standard certification for housing counseling trainers nationwide. Congressionally-chartered in 1978, Neighborhood Reinvestment Corporation is authorized by the House Committee on Financial Services, and has been funded for the last twenty-five years under VA, HUD, and Independent Agencies' Subcommittees. The testimony that I will share on behalf of the NeighborWorks System is based on the experience and successes of over 220 community development organizations serving more than 2,500 urban, suburban and rural communities across the United States.

Overview of Neighborhood Reinvestment Corporation and The NeighborWorks Network

Neighborhood Reinvestment founded and supports a network of over 220 locally-controlled, community-based nonprofits collectively known as the NeighborWorks network. Neighborhood Reinvestment's partnerships with local housing and community development organizations support residents, businesses, and local governments in their efforts to revitalize their communities, and expand affordable housing opportunities for low- and moderate-income families.

NeighborWorks Network

Our affiliated NeighborWorks organizations are located in our nation's largest cities, as well as suburban neighborhoods, small towns and rural areas. Regardless of their target communities, each NeighborWorks organization operates under the direction of a local board of directors comprised of local residents, lenders and other business leaders, and representatives from local government. This three-pronged public-private partnership to community development is crucial to the NeighborWorks system's successes. To achieve their locally-identified goals, members of the NeighborWorks network utilize the laboratory environment that Congress intended to achieve creative strategies, collaborate on best practices, and develop flexible financing mechanisms.

NeighborWorks organizations also operate a revolving loan fund to meet community credit needs such as gap financing for home purchase loans, second mortgages for home rehabilitation or repair, small-business loans, and for the acquisition and development of residential and commercial real estate. The NeighborWorks network is the leading national community development nonprofit network with extensive expertise in designing, originating, and servicing small non-conventional loans to lower-income families. However, clients often require more than a loan. NeighborWorks organizations also provide extensive training, counseling and personalized assistance. This

concentrated effort pays off by not only creating comprehensive opportunities for families to build assets, but also by revitalizing distressed communities.

Housing Counseling as a Community Development Tool

Buying a home is a very complex process. Many consumers, regardless of income, race, age, or level of education, need help to negotiate this process successfully.

The housing counseling industry is growing in importance and sophistication. Real estate market dynamics are shifting, as the financial services industry is venturing into the "emerging market" of low-income and minority families, and more credit is available to the credit-impaired and less sophisticated potential homebuyers. In the midst of these changes, housing counseling agencies are becoming more critical to the home-buying process. Many minority families, particularly immigrants, lack the information and familiarity with mainstream financial institutions, which makes them vulnerable targets for high cost loans and predatory lending practices. Therefore, community-based nonprofit housing counseling organizations play a pivotal role as they reach out to these families and provide objective education on various financial services and housing options. These local counseling agencies, including NeighborWorks organizations, are a critical link in increasing sustainable homeownership opportunities for low- and moderate-income families in the United States.

Homebuyer education is currently offered by a variety of players, both for-profit and non-profit, and the educational methods range from workbooks, to advice and information given out on the telephone, to formalized group classes, homebuyer clubs and intensive one-on-one counseling. The most effective counseling occurs before there is a contract to purchase a specific home, ideally even before a family begins to search for a home. However, post-purchase counseling is crucial to help families maintain their homes, refinance, or to manage delinquencies.

Pre-purchase homebuyer counseling and education has a measurable, positive impact on loan performance, reducing defaults by up to 34 percent, controlling for other factors, according to a recent Freddie Mac study. Another study from Ohio State concludes counseled borrowers have a default risk one-half the size of non-counseled borrowers. A study of credit counseling by Georgetown University shows three years after loan origination; those borrowers with counseling have better overall credit health. This is also born out with the experience from our NeighborWorks network, which I will highlight later in my testimony. I would be glad to share these and other studies with you as you continue to explore the value of housing counseling.

The NeighborWorks System: Standards and Results

Studies also tell us that the type of counseling offered matters significantly. Over the last ten years, the NeighborWorks Campaign for HomeOwnership has tested various innovations in housing counseling and developed strong standards and a nationally-recognized framework for positive housing counseling results.

The Campaign for Home Ownership is a joint effort involving banks, insurance companies, secondary markets, government, the real estate community and others, coordinated by Neighborhood Reinvestment Corporation to bring families of modest means into home ownership. The NeighborWorks Campaign for Home Ownership has assisted over 75,000 low- to moderate-income families to purchase homes, educated almost 400,000 families, and generated over $5 billion in reinvestment in communities.

Neighborhood Reinvestment's Campaign for Home Ownership has set a national standard for pre-purchase homeownership education and established a five-day training and certification course for counselors and trainers at its NeighborWorks Training Institute. Over 3,000 housing counselors per year have been certified through this course.

Trainers certified by Neighborhood Reinvestment Corporation adhere to the following standards:

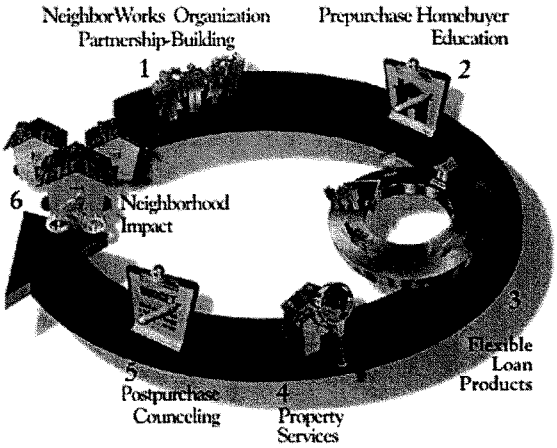
- All potential homebuyers receive a minimum of eight hours of group homebuyer education with follow-up individual counseling;
- The housing counselors are certified by Neighborhood Reinvestment after completing the five-day "Homebuyer Education Methods: Training for Trainers" class at the Neighborhood Reinvestment Training Institute and passing the course exam;
- The content, delivery and format of the homebuyer training is tailored to meet the needs of the participants (rather than a one-size-fits-all approach);
- Ideally, the training and counseling occur before a purchase contract is signed;
- Customer satisfaction surveys are used to evaluate the effectiveness of the training; and
- A code of ethics is developed for all volunteer trainers.

Leaders of community-based organizations in the national NeighborWorks network recognized that the conventional mortgage market could not fully meet the needs of their lower-income customers. By creating a system that reaches these customers, teaches them about home ownership, and prepares them to be owners, these nonprofits have not

only been able to help lower-income families obtain the American Dream of Home Ownership, but have also done so in a way that reduces the risk of delinquency and foreclosure. This system, service marked as Full Cycle Lending[SM], includes pre-purchase homebuyer education, flexible loan products, property services and post-purchase counseling.

Full Cycle Lending[SM] is a process that benefits all stakeholders in the homeownership arena. Residents can overcome hindrances to ownership as the process is demystified; they save for a down payment and they secure their home and mortgage. Lenders can invest with confidence about an owner's ability to repay the mortgage. Local government officials can take pride in watching neighborhoods change. As more and more homeowners stake a claim in their communities, they enhance the tax base and contribute to overall community stability and renewal.

The Steps of NeighborWorks Full-Cycle Lending[SM]



1. Organization Partnership-Building. The NeighborWorks organization makes a commitment to the process by creating a partnership of residents, business and local government leaders. A plan for targeted community revitalization is put in place.
2. Pre-purchase Homebuyer Education. The homebuyer learns about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate the rehabilitation needs of the property.

3. Flexible Loan Products. Local lenders work with the NeighborWorks organization to create mortgage products the customer can afford -- with features like lower down payments, downpayment assistance, and rehabilitation loans even when the total cost exceeds the value of the home. Property casualty insurance and mortgage insurance companies provide products that allow for the high loan-to-value ratios. The lender can hold the loans in portfolio or package and sell them to Freddie Mac or Fannie Mae's secondary markets. Neighborhood Housing Services of America purchases special-needs first mortgages as well as second- and third-mortgage rehabilitation loans. The secondary markets return funds to the lender, who recycles them by originating additional mortgages to the community.
4. Property Services. The NeighborWorks organization inspects the property, offers technical assistance to the homebuyer and assists with the property's rehabilitation.
5. Post-purchase Counseling. The NeighborWorks organization trains the new owners in home maintenance and budgeting, and supplies early intervention delinquency counseling so that defaults and foreclosures are avoided.
6. Neighborhood Impact. Homeowners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency.

The homebuyers directly assisted by the NeighborWorks system largely represent traditionally underserved populations: ethnic/racial minorities, lower-income, and female-headed households. Fifty one percent of homebuyers were non-white, 67 percent earned less than the area median income, and 44 percent were female-headed households.

Demographics of NeighborWorks Homebuyers

Demographics of	Percent of Homebuyers
Homebuyers: FY1998 - 2003 (4)	
Whites (Non-Hispanic)	49
African-American	23
Latino/Hispanics	23
Others	5
Total	100
(4) The race/ethnicity of 422 clients was not available.	
Household Income (5)	**Percent of Homebuyers**
Less than 80% AMI	67
81% - 120% AMI	23
Above 120% AMI	10
Total	100
(5) The household income of 975 clients was not available.	
Household Head's Gender	**Percent of Homebuyers**
Female	44
Male	26
Joint	30

Despite the challenges faced by the clients they serve, the high quality of counseling offered by NeighborWorks organizations is demonstrated in the loan performance. Based on a representative sample, mortgage delinquency among NeighborWorks customers is actually lower than for all mortgage loans in the United States (as reported by the Mortgage Bankers Association of America). Moreover, NeighborWorks loans were foreclosed upon in only 0.25 percent of cases, less than both the 0.38 percent of all U.S. loans, and 0.28 percent of conventional loans.

NeighborWorks Network

Comparative Data on Single-Family First Mortgage Home Loans

(As of September 30, 2003)

	Past Due Loans			Total	Forclosures
	30 days	60 days	90+ days	Past Due	(Started 7/1/03 - 9/30/03)
All Loans (U.S.)	2.77%	0.71%	0.80%	4.28%	0.38%
Conventional	2.02%	0.45%	0.46%	2.93%	0.28%
VA	4.60%	1.38%	1.76%	7.74%	0.48%
FHA	7.24%	2.21%	2.68%	12.13%	0.98%
NeighborWorks Campaign Clients	1.93%	0.69%	0.98%	3.60%	0.25%

Source: NeighborWorks Campaign clients' data pertaining to Neighborhood Housing Services of America (NHSA) portfolio of 2,928 loans, amounting to $197.82 million; all other data are provided by the Mortgage Bankers Association of America's (MBAA) economic department.

NeighborWorks Center for Homebuyer Education and Counseling

Responding to increasing demand for training, Neighborhood Reinvestment Corporation expanded its homeownership education certification course to trainers and counselors outside of the NeighborWorks network in 1997. Since that time, more than 3,000 homeownership education trainers and counselors have graduated from the "Homebuyer Education Methods: Training the Trainer" and "Housing Counseling" courses at the NeighborWorks Training Institutes. Neighborhood Reinvestment's training certification programs in homeownership education and counseling are considered by many to be the finest in the country, and I can provide NeighborWorks Training Institute brochures to you that contain more detailed information on these programs.

The "Blueprint for the American Dream," developed in response to President Bush's initiative to increase homeownership among minority households, identifies the lack of access to quality homeownership education and counseling as one of the foremost barriers for low- and moderate-income families to achieve homeownership. As I mentioned earlier, the experience of the NeighborWorks system and studies by Freddie Mac, Georgetown University, and Ohio State demonstrate that credit and pre-purchase homeownership education and counseling can lower delinquency rates, but the quality of education and counseling make a significant difference. Unfortunately, there are currently no national standards and the quality of education and counseling is extremely uneven – ranging from Neighborhood Reinvestment's state of the art curriculum and standards to "sham" counseling programs that lure potential buyers into predatory loan deals. Many industry leaders have called for national standards and nation-wide certification for housing counselors, and Neighborhood Reinvestment has initiated steps to fill the void.

Neighborhood Reinvestment proposes to greatly expand our current efforts through the creation of a new NeighborWorks Center for Homeownership Education and Counseling. The mission of the Center will be to work with industry partners and the broader nonprofit housing counseling field to set national standards, provide expanded training and certification opportunities for existing counselors, and support counselors with tools, information, and continuing education. The Center proposes to significantly increase to the number of homeownership counselors and educators trained and certified by Neighborhood Reinvestment – and ensure effective education and counseling of individuals and families.

In addition to expanding training and certification of homeownership educators and counselors, Neighborhood Reinvestment proposes to provide support to NeighborWorks organizations, national and state intermediaries, and direct service providers to help them expand their home ownership education and counseling. The Center will help organizations employ new counselors and educators, market their programs to minority families, produce new services and tools, and serve consumers in a more efficient and effective manner. In addition, support will be given to other national housing counseling

intermediaries to host and sponsor local trainings for certification and continuing education for their members; provide quality control for affiliate organizations, counselors and trainers; and submit data on homeownership education and counseling activities nationally.

The Center will focus on providing training, tools, and information for both pre- and post-purchase education and counseling. In addition to the core five-day homebuyer education training of trainers' course, the Center will feature other courses such as Teaching Financial Fitness; Housing Counseling; Credit Counseling for Maximum Results; Helping Homeowners Avoid Delinquency and Predatory Lending; Home Maintenance and Financial Management for New Homeowners; and Involving New Homeowners in the Community.

Neighborhood Reinvestment is planning a special national symposium at our Washington, D.C. NeighborWorks Training Institute on August 11th on "Homebuyer Education and Counseling: Taking It to the Next Level." We hope to convene over 300 practitioners, funders, policymakers and other interested parties to discuss the challenges and opportunities facing the housing counseling industry. We would welcome your participation in this event.

Conclusion and Summary

Let me close by thanking the Subcommittee for the opportunity to speak about the housing counseling efforts of the NeighborWorks system. The model of Full-Cycle Lending has enabled NeighborWorks organizations across the country to prepare consumers for the home-buying process, and to ensure that they can sustain homeownership in the long term. The lessons that we have learned over the years have prepared us to collaboratively set and enforce housing counseling standards, which are critical to successful and sustainable homeownership.

We believe that, with your support, the quality and consistency of housing counseling services will be greatly enhanced. These services will ensure that all Americans have access to the quality education that is necessary to make informed choices about homeownership.

Neighborhood
Reinvestment
Corporation

Neighborhood Reinvestment Corporation

Executive Director: Kenneth D. Wade

Biographical Notes

As executive director of Neighborhood Reinvestment Corporation, Kenneth D. Wade serves as the Corporation's chief executive, overseeing its multimillion-dollar grant programs and training activities in support of the national NeighborWorks® network of affordable housing and community development organizations.

Wade, who joined Neighborhood Reinvestment in 1990, has over 25 years of experience in community development. He most recently served for five years as Neighborhood Reinvestment's director of national programs, initiatives, and research. In this role, Wade directed all national programmatic initiatives for the Corporation, including the NeighborWorks Campaign for Home Ownership, the NeighborWorks Multifamily Initiative, the NeighborWorks Insurance Alliance, the NeighborWorks Rural Initiative, and the Resident Leadership Initiatives. Wade has also overseen the development of a number of national partnerships on behalf of the NeighborWorks network. In addition, he served as the district director for Neighborhood Reinvestment's New England district for eight years.

Prior to joining Neighborhood Reinvestment, Wade worked for nine years with Boston's United South End Settlements. He participated in the development of the "Community Investment Plan" in Boston established by local banks and the Community Investment Coalition announced in 1990. He has served as a community board member of the Massachusetts Housing Investment Corporation (a consortium of banks that provides financing for affordable housing development) and the State Attorney General's representative on the Home Improvement Contractor Advisory Panel for the State of Massachusetts. In addition, Wade has served on the advisory committee for the Affordable Housing Program of the Boston Federal Home Loan Bank and the Boston Federal Reserve Bank Community Development Advisory Committee.

Wade studied at Springfield College and University of Massachusetts College of Public and Community Service.

Neighborhood Reinvestment Corporation
Grant Awards from HUD
FY 2000 - present

Purpose	Period	Amount of Award
HomeOwnership Program		
(cooperative agreement)	2/6/2004 to 2/6/2005	$ 1,000,000
Section 8 Homeownership Voucher	10/01/2003 to 9/30/2004	$ 271,154
Housing Counseling Services	10/01/2003 to 9/30/2004	$ 2,150,106
	10/01/2002 to 9/30/2003	$ 1,399,453
	10/01/2001 to 9/30/2002	$ 1,155,072
	10/01/2000 to 9/30/2001	$ 670,086
	10/01/1999 to 9/30/2000	$ 764,277
Housing Counseling Services		
(Mark-to-Market)	9/20/2002 to 9/19/2004	$ 500,000
Nine-month Housing Counseling		
Training Program	9/13/2002 to 6/13/2003	$ 242,067
National Homebuyer Education		
Training for Indian Country	3/01/2002 to 2/28/2003	$ 25,000
Housing Counseling Services	01/01/1999 to 3/31/2002	$ 484,019
Training Grant		
Total		**$ 8,661,234**

Testimony Of Chapman Walsh
Home Ownership Made Easy (H.O.M.E.) Program Director

Of

The Green Forest Community Development Corporation
Decatur, Georgia

Before

Subcommittee on Housing and Community Opportunity Committee on Financial Services US House of Representatives

Hearing entitled "Successful Homeownership and Renting through Housing Counseling"

H.R. 3938, Expanding Housing Opportunities through Education and Counseling Act

March 18, 2004

Testimony of Chapman Walsh, Home Ownership Made Easy (H.O.M.E.) Program Director of the Green Forest Community Development Corporation of Decatur, Georgia.

Before

Subcommittee on Housing and Community Opportunity Committee on Financial Services US House of Representatives

Hearing entitled "Successful Homeownership and Renting through Housing Counseling"

H.R. 3938, Expanding Housing Opportunities through Education and Counseling Act

March 18, 2004

Thank you Chairman Ney, Congresswoman Waters, Congressman Scott and other members of the Subcommittee for the opportunity to testify today on "Successful Homeownership and Renting through Housing Counseling." Which is in support of H.R. 3938, "Expanding Housing Opportunities through Education and Counseling Act." I testify here today on behalf of low-income clients of Greater Metro Atlanta. The clients and constituencies of Atlanta collectively encompass a broad range of families and households who seek to realize the American Dream of homeownership by become successful homeowners via Housing Counseling.

My name is Chapman Walsh and I am the Home Ownership Made Easy (H.O.M.E.) Director for the Green Forest Community Development Corporation, a faith-based community development corporation located in Decatur, Georgia of Greater Metro Atlanta

Green Forest Community Development Corporation, Inc. was created by Greenforest Community Baptist Church and granted its 501 (c) – 3 in 1996. Green Forest Community Development Corporation is a private non-profit faith-based community economic development corporation, governed by a board of directors consisting of residents of the community and business and civic leaders.

Green Forest Community Development Corporation, Inc. is located in the Candler Road Corridor of DeKalb County in Greater Metro Atlanta. The address is 3299 Rainbow Drive, Decatur, Georgia. We can be contacted at (404) 486-1120 or via the World Wide Web at www.gfcdc.org. In addition to providing technical assistance to the faith-based community in the Southeast, Green Forest Community Development Corporation is committed to revitalizing neighborhoods, creating educational opportunities, affordable housing and counseling families and individuals on homeownership responsibilities and personal financial management.

MISSION

"The mission of Green Forest Community Development Corporation is to create empowerment and networking for people through economic development, housing, youth, senior and health initiatives, social ministries, education and comprehensive prevention programs for persons of all ages."

OUR ARRAY OF SERVICES INCLUDES:

- **Faith-Based Community Economic Development** (Community Revitalization and Empowerment to include Technical Assistance, Job Training and Technology)
- **Housing** (Home Ownership, Housing Counseling and Affordable Rental Housing.)
- **Loss Mitigation** (Foreclosure Prevention, Default Counseling and Predatory Lending, Understanding Credit, Debt Management Through Budgeting, & Financial Management Education.
- **Commercial Development** (Affordable Housing Development, Child Care Centers, Business/Commercial Construction, Apprenticeship/ Internship Programs)
- **Family, Youth, Children** (Housing, Emergency Assistance, Personal and Financial Counseling, Nutrition Programs, Sports and Academic Programs).
- **Education** (Early Childhood Development, Adult Education, K-12 Education, Workforce Development, Technology, and Ministry Fest – (Annual Faith-based Education/Community Economic Development Seminar.))

On behalf of Green Forest Community Development Corporation, I am deeply grateful for the opportunity to testify before the Committee. The Members of this Committee continue to demonstrate their commitment to expanding housing opportunities for all persons by passing meaningful legislation and by holding hearings, such as this one—to highlight affordable homeownership as one of the single most important tools that a family can use to improve their quality of life and build wealth.

To the members of the Subcommittee on Housing and Community Opportunity; again I applaud you effort to expand affordable housing opportunities to include homeownership to the American public. As someone who is on the front line furnishing housing counseling on a daily basis, someone who is in the trenches as it were, I would like to suggest the following:

1. The time is now to establish a national affordable housing policy;
2. The time is now to create HUD Advisory Council in order to establish a unified and working system of housing assistance;
3. The time is now to set National Guidelines for affordable housing;
4. The time is now to ensure that affordable housing is available and readily attainable.

Simply put, the time is now to establish a national *workable* housing policy and to set standards. The time is now to remove barriers to affordable housing. The time is now to provide sufficient funding to State and local agencies to include non profit organizations and the faith-based community to fulfill their housing counseling mission. The time is now to encourage the creation of public/private partnerships for the provision of affordable housing opportunities and to do all that is feasible to establish a workable solution to the housing crisis that is experienced by the low to moderate income in America.

H.R. 3938, "Expanding Housing Opportunities through Education and Counseling," focuses on the importance of housing counseling. This legislation is designed to enhance the counseling programs currently operating through HUD and to foster other private counseling programs. Homeownership gives residents an equity stake in the economic mainstream of America, building long-term assets for families as well as their communities. Home ownership also improves city tax bases, provides lending, increases ensuing opportunities and stabilizes school attendance.

Though H.R. 3938 concerns both affordable renting and homeownership. **Using a series of questions and answers, I will address those related to homeownership**.

In 1996, declining interest rates, increasing employment rates and consumer demand led the Board of Director's of the Green Forest Community Development Corporation, to come together to create the H.O.ME.E program, a vehicle for making homeownership possible by removing the traditional barriers to homeownership. The American Dream of Homeownership was a desired outcome, however barriers were also high. These barriers include: lack of down payment and second mortgage money and lack of financial literacy.

Overview Of The Need For Housing Counseling

Helping low-income households locate safe and decent rental housing can be a difficult task. Many low-income households suffer from prior evictions, poor credit history, or poor tenancy records. Households are further challenged with low vacancy rates, increasing market rents, lack of knowledge regarding the availability of housing resources, and landlord resistance. These challenges make it difficult for low-income households to locate appropriate housing, increasing the probability that they will become homeless or be forced to accept sub-standard housing. *(March 16, 2001), Learning From Each Other "Improving Housing Counseling Services With NHHFA's Housing Referral Network". The New Hampshire Housing Finance Authority (NHHFA). HUD Interview With NHHFA Staff.*

- **What Benefit Does Housing Counseling Provide In The Homeownership And Rental Process?**

The benefits of housing counseling are numerous. Housing counseling enables would-be homeowners to learn how to improve their credit, strengthen money management skills and avoid predatory lenders and other unscrupulous practices. Existing homeowners will learn how to avoid delinquency and default, restructure debt and maintain their home.

In addition, many individuals and families who will receive HUD-funded counseling are renters. Counseling services will help them find housing closer to their jobs or health care as well as teach them about tenant rights. Finally, homeless individuals and families will learn how to find emergency services and secure transitional housing. See (November 13, 2003) HUD News Release HUD No. 03-124.

Housing counseling helps to remove barriers to homeownership. Some low- and moderate-income households have been able to take advantage of access to banking services, but are finding themselves unprepared to deal with the complexities that characterize today's financial environment. Housing Counseling will help individuals to become educated and informed consumers. *(July 29, 2003) Statement Of Donna Gambrell, Deputy Director For Compliance And Consumer Protection Division Of Supervision And Consumer Protection, Federal Deposit Insurance Corporation, "On The Consumer Understanding And Awareness Of The Credit Granting Process" Before The Committee On Banking, Housing, And Urban Affairs, U.S. Senate.*

Policymakers and financial institutions alike have made commendable efforts to broaden the scope of banking products for low- and moderate-income people. However, many families still fall outside of the financial mainstream and do not maintain traditional bank credit, savings or investment accounts. Nearly 10 percent of U.S. families do not have transaction accounts. "Unbanked" individuals tend to: have low incomes, not own homes, be under 35 years of age, be non-white or Hispanic, be unemployed, and be educated at the high school level or below. *(July 29, 2003) Statement Of Donna Gambrell, Deputy Director For Compliance And Consumer Protection Division Of Supervision And Consumer Protection, Federal Deposit Insurance Corporation, "On The Consumer Understanding And Awareness Of The Credit Granting Process" Before The Committee On Banking, Housing, And Urban Affairs, U.S. Senate.*

- **What Types Of Counseling Does Your Organization Provide? Approximately How Many Families And Individuals Do You Serve?**

Home Ownership Counseling

Green Forest Community Development Corporation offers a full array of homeownership assistance. We are the lead agency of the "Expanding the Dream®" DeKalb initiative, which is the "Home Ownership Made Easy" (H.O.M.E.) homebuyer education-counseling program. H.O.M.E. is an initiative of Freddie Mac. H.O.M.E. provides Freddie Mac and HUD approved homeownership counseling at various community venues within Metro Atlanta and the South DeKalb community. Our Homebuyer Education program consists of Pre-Purchase Counseling and, Default/Delinquency Counseling.

On-Line Lending

A coalition of local churches in DeKalb County, Ga. are harnessing the power of on-line lending technology to forge affordable homeownership opportunities for African-American families through a comprehensive $25 million faith-based housing effort uniting the South DeKalb Church Federal Credit Union, six prominent area churches, mortgage lender Taylor, Bean & Whitaker, Green Forest Community Development Corporation and Freddie Mac, one of the nation's largest investors in residential mortgages. (*November 03, 2003), Freddie Mac, "News and Information";*
http://www.freddiemac.com/news/archives/afford_housing/2003/georgia_110303.html.

"Catch the Dream DeKalb" will give South DeKalb Church Federal Credit Union significant new financial muscle to provide accessible low-down payment mortgage products to the 40,000 members of the six churches by becoming the first faith-based organization to take advantage of Taylor, Bean & Whitaker's CommunityBanksOnline (CBO), a web-based mortgage origination service, and Freddie Mac's Loan Prospector automated underwriting service. Currently, more than 600 community banks use CBO and more than 14,000 lenders across the nation use Freddie Mac's Loan Prospector.

""*Catch the Dream DeKalb* combines two of the most potent forces driving homeownership today: faith-based coalitions and on-line lending technology," said Craig Nickerson, vice president of community development lending at Freddie Mac. "This combination is providing the housing industry with a dynamic new model for closing the gap between minority and non-minority homeownership rates in this country."

Financial Literacy Education

Green Forest Community Development Corporation has expanded its existing Homeownership Counseling Program to include extensive Financial Literacy Counseling. We use Freddie Mac's "CreditSmart" curriculum.

The Homeownership Counseling and Financial Literacy Program provides:

I. Homebuyer Education Counseling And Guidance Through The Homebuyer Process

II. Immediately Address High Levels Of Delinquency And Foreclosure In DeKalb

III. Provide Individual Homeowners Access To Foreclosure Prevention Services

IV. Coordinate Existing Supportive Resources And Provide Clear Access Path For Dealing With Existing Delinquencies

V. Initiate Stronger Training And Assistance In Default Counseling And Predatory Lending Education

VI. Increase Number Of Stable Homeowners In DeKalb County

"Don't Borrow Trouble"
Loss Mitigation - Foreclosure Prevention – Predatory Lending Education

We are a one of the leaders in the Development Team of the "Don't Borrow Trouble Metro Atlanta" initiative which is a homebuyer education project designed to combat "Predatory Lending" and to alleviate its effects by providing financial literacy education in order to empower homebuyers to make educated and wise mortgage financing decisions. Freddie Mac sponsors this initiative. The following programs also participate: HUD, The United Way of Metro Atlanta, United Way 211, United Way DeKalb County, Fulton/DeKalb County Housing, The Atlanta Center for Homeownership, D. & E., Consumer Credit Counseling Service, Atlanta Legal Aid, The Atlanta Neighborhood Development Partnership, etc. More agencies are expected to come on board as the program develops.

The program is designed to address the critical issue of delinquency and foreclosure prevalent in DeKalb County, one of the highest in the nation. Through modifying the pre-purchasing counseling and training components of the existing program and expanding the post counseling elements to include loss mitigation education, this will address the identified need within our community to stem the rising tide of delinquencies and foreclosures among Greater Metro Atlanta and DeKalb County Homeowners and sets the benchmarks of collaborative efforts in Homeownership programs that can be replicable regionally and nationally.

APPROXIMATELY HOW MANY FAMILIES AND INDIVIDUALS DO YOU SERVE?

During the first year of this program GFCDC helped over 300 families move along the path to homeownership. We currently serve in excess of 400 clients per year.

Ministry Fest

In the second week of July of every year, Green Forest Community Development Corporation and Greenforest Community Baptist Church, host "Ministry Fest" which is a faith-based training institution sponsored by the Greenforest Web Association (networking association). "Ministry Fest" offers an extensive training program in faith-based community economic development.

Green Forest Community Development Corporation has the ability to train faith-based organizations in the field of community economic development and to build capacity in a variety of areas. Upon completion of training, the selected faith-based organizations will be in a stronger position to assist their community and to disciple other faith-based organizations in order that they may realize their respective community economic objectives.

Green Forest Community Development Corporation can assist faith-based organizations to "build multi-purpose buildings"; purchase and rehabilitate or erect new affordable rental housing units; build new single family affordable housing units for sale; build rental housing units and recreation centers for seniors; develop, establish, and manage child development centers; develop, establish, and manage schools K - 12th grade; and acquire tracts of land for future development.

- **Are You A HUD Approved Agency? If So, What HUD Counseling Program Do You Utilize? What Has Been Your Experience In Administering HUD Counseling Programs?**

Green Forest Community Development Corporation is a HUD approved housing counseling agency? We utilize "Freddie Mac's "*CreditSmart*" curriculum.

WHAT HAS BEEN YOUR EXPERIENCE IN ADMINISTERING HUD COUNSELING PROGRAMS?

I have over ten years of experience as a housing counselor. I also have over fifteen years experience as a realtor. I have completed the following trainings:

- "Fundamentals Of Homeownership" - Neighborhood Reinvestment (NR) - 5-day certificate;
- "Using The Community Development Block Grant Program" (CDBG), (NR):
- "Home Buyer Education Methods", (NR);
- "Helping Home Owners Avoid Delinquency And Predatory Lenders", HUD;
- "Loss Mitigation Training 2000", HUD.

In my day-to-day experience as a HUD approved housing counselor, I provide the following services:

- General Housing Education in a class room setting
- Financial Literacy Education in a class room setting
- Loss Mitigation (Foreclosure Prevention) Education in a class room setting

- Predatory Lending Education in a class room setting
- Individual one-on-one housing counseling to include the following subjects:
    - Buying A Home
    - Establishing/Repairing Your Credit
    - Pre-Qualification: Getting Ready To Buy
    - Selecting A Home: Closing The Deal
    - Homeowners Club: Post Purchasing Counseling
    - Loss Mitigation (Foreclosure Prevention) Education
    - Predatory Lending Education

Housing counseling services are an important part of HUD's goal to expand homeownership opportunities, particularly for minorities, Housing Counseling helps to open doors to the American Dream of homeownership to more American families.

The Green Forest Community Development Corporation prepares clients to become "mortgagable." Client may well enter our program with damaged credit, however they exit our program as type A homeowners who have completed an intensive course of financial literacy education, secured a traditional prime mortgage and are firmly on the path of successful homeownership.

It must be noted that housing counseling and loss mitigation counseling is very time intensive and expensive. Most housing counselors deal with "non traditional" clients who may be unbanked, have credit issues and be totally uneducated about housing and financial matters. The typical client is timid about broaching the subject of homeownership and well aware of the barrier to homeownership. Therefore, classroom sessions are an important means of education and communication, however the majority of clients need intensive one-on-one financial counseling for a period to time that may extend from six weeks to over a year.

The time commitment required of housing counseling programs and the tremendous expense involved makes it clear that adequate funding is needed by housing counseling programs in order to ensure adequate service delivery. To this end, I would like to suggest To the members of the Subcommittee on Housing and Community Opportunity the following; Adequate funding must be provided by way of ***grants*** to states and local agencies in order that we are able to allow Housing Counselors are be permitted to fulfill their mission of providing quality housing counseling.

Testimony Of Chapman Walsh. GFCDC H.O.M.E. Director. H.R. 3938, Expanding Housing Opportunities through Education and Counseling Act, Testimony before Subcommittee on Housing and Community Opportunity Committee on Financial Services US House of Representatives. March 18, 2004.

- **What Types Of Foreclosure Counseling Programs Do You Administer Or Are You Aware Of? Please Explain The Process For How A Family Or Individual Can Participate In A Foreclosure Counseling Program.**

We are a one of the leaders in the Development Team of the "Don't Borrow Trouble Metro Atlanta" initiative which is a homebuyer education project designed to combat "Predatory Lending" and to alleviate its effects by providing financial literacy education in order to empower homebuyers to make educated and wise mortgage financing decisions. Freddie Mac sponsors this initiative.

The following programs also participate and meet regularly to coordinate services: HUD, The United Way of Metro Atlanta, United Way 211, United Way DeKalb County, Fulton/DeKalb County Housing, The Atlanta Center for Homeownership, D. & E., Consumer Credit Counseling Service, Atlanta Legal Aid and The Atlanta Neighborhood Development Partnership.

PLEASE EXPLAIN THE PROCESS FOR HOW A FAMILY OR INDIVIDUAL CAN PARTICIPATE IN A FORECLOSURE COUNSELING PROGRAM.

Individuals who seek foreclosure prevention service contact United Way 211 where they are screened and referred to the appropriate agency. The United Way of Metro Atlanta and United Way 211 serve as administrator and clearinghouse for "Don't Borrow Trouble Metro Atlanta." United Way 211 is a comprehensive, statewide community information and referral service. 211 offer help finding food, shelter, drug treatment, childcare, job training and much more.

- **Do You Provide, Or Are You Familiar With, Housing Counseling Programs That Assist Those Families Looking To Rent Affordable Housing? If So, Please Outline Your Participation And Benefits Of Housing Counseling As It Relates To The Rental Market.**

Although the focus of the Green Forest Community Development Corporation H.O.M.E. Program is homeownership, we are familiar with programs that assist families looking to rent affordable housing. We offer affordable housing counseling and referrals. We also meet and partner with affordable housing programs.

While owning one's home is considered to be "the American Dream," we at Green Forest Community Development Corporation agree with the findings of the National Low Income Housing Coalition in its concern that the emphasis on homeownership comes at the expense of a complete national housing policy. Rental housing is essential both as a step on the road toward homeownership, and as important public policy in its own right.

Further, while homeownership can have benefits, there are important reasons why a household might choose to rent instead of purchase its home. For a family living paycheck to paycheck, a major repair on a home they own can be enough to lead to bankruptcy or foreclosure. In addition, rental housing allows families to be more geographically flexible; low-income families especially may need to move to follow job opportunities. Seniors and people with disabilities may have reasons to prefer rental housing as well. (December 16, 2003), National Low Income Housing Coalition/LIHIS, 202-662-1530 x230.

- **Does Your Organization Provide Counseling Services Separate From HUD-Sponsored Counseling Programs? If So, Please Explain What Kind Of Counseling Do You Provide?**

Green Forest Community Development Corporation's H.O.M.E. program provides Freddie Mac and HUD approved homeownership counseling at various community venues within Metro Atlanta and the South DeKalb community.

Courses are delivered via lectures in classroom settings. Individual one-on-one counseling is a vital component of our services. Course material consists of printed text, workbooks and videotapes.

We offer technical assistance and community outreach to faith-based community agencies throughout Metro Atlanta and the Southeast. We also offer an extensive Community Economic Development Institute via the annual (2nd week in July) Greenforest Community Baptist Church's "Ministry Fest."

Green Forest Community Development Corporation's Homebuyer Education Program consist of the following:

LECTURE SERIES – H.O.M.E. (HOME OWNERSHIP MADE EASY)

Class One Buying A Home
You will learn about key role players in the home-buying process. Topics include: Economic Overview/Home Inspection, The Role of Realtors, Appraisals, The Mortgage Process, Needs vs. Wants, Renting vs. Buying and "How Much Does It Cost."

Class Two Establishing/Repairing Your Credit
Prospective Homebuyers will receive, review and learn how to understand their credit reports. You will receive a private, confidential one-on-one analysis of your credit situation in preparation for this important part of the home ownership process.

Class Three Pre-Qualification: Getting Ready To Buy
This class reviews the various options available for obtaining a mortgage. "We will work with you to establish a time line which sets you on track for the purchase of your house and the responsibility of homeownership. In this class you will also find the answer to the critical question.... How Much Can I Afford?"

Class Four Selecting A Home: Closing The Deal
This is the next to last step in making your dream a reality. You will receive your pre-qualification certificate, that documents your training in negotiating a purchase agreement and building a team of professionals necessary for the closing. Congratulations you've graduated to "HOME OWNERSHIP."

Class Five Homeowners Club: Post Purchasing Counseling
This is a continuation of the topic of responsibility of homeownership and includes financial management skills, the concept of budgeting and contingency funds; developing a saving plan; planning for the future.

LOSS MITIGATION AND FORECLOSURE PREVENTION INITIATIVE
Using an individual action plan we provide homeowners access to foreclosure prevention services. We provide homeowners particularly the elderly, access to predatory lending and foreclosure prevention services. We coordinate existing resources and provide an individualized access path for addressing existing delinquencies. The program also initiates training and assistance tools to address future delinquency and foreclosure prevention.

- **How Do You Measure And Account For Success In The Implementation Of The Housing Counseling Programs You Administer?**

All our clients are "**success stories**" as Green Forest Community Development Corporation has played a vital role in enriching the quality of life and assisting our community in secure safe and affordable housing and quality education from infancy to adulthood. Our clients benefit individually and our community benefits collectively by GFCDC's provision of housing counseling and education so that our clients become

successfully homeowners and remain so via on-going counseling and loss mitigation and foreclosure prevention education. We assist our clients to become informed consumers.

Finally, countless organizations, families and individuals are mentored and assisted in the areas of housing, education, job skill readiness, computer technology, financial management, construction trades, organization development, technical assistance, direct assistance and social/human service referrals. GFCDC is dedicated to creating healthily communities that have supportive structures in place that are essential to an enhanced quality of life. We are committed to building sound relationships in our communities as well as residences where we can be proud to live. We are pleased thus far with our accomplishments.

- GFCDC has provided affordable rental housing for 161 individuals.
- GFCDC has provided housing counseling and loss-mitigation counseling for in excess of for 180 families annually.
- GFCDC has provided mentoring for countless individuals in areas of housing, education, job skill readiness, computer technology, financial management, construction trades, organization development, technical assistance, direct assistance and social/human service referrals.

- **Do you believe that there is sufficient flexibility in housing counseling programs to allow non-profits and other counseling providers to adjust to changing community needs, e.g. homeownership versus rental housing opportunities?**

There is sufficient flexibility in housing counseling programs so that that provider can adjust to changing conditions. The better question however is what can be done to institute a national housing policy that involves much more than additional questionable incentives for meeting housing needs. It is uncontroverted that there has been a movement of the past decade to limit the number of rental housing units and affordable housing vouchers in favor of affordable homeownership initiative. It is also uncontroverted that there are documented barriers to homeownership, particularly for minorities. There is a dangerous disconnect between our housing policy and our housing needs.

Affordable housing, whether rental or homeownership must be an attainable goal. Barriers to Homeownership such as high rents that are out of proportion to income makes it difficult for potential homebuyer to save sufficiently for traditional down payment. Other

barriers to homeownership are financing institutes who continue to adhere to outdated modes of credit scoring that leave large segments of the populations well outside the dream of homeownership.

It is clear that a National Housing Policy that ensures adequate housing should be our number one priority.

- **What is the capacity of the current network of counseling providers and how can we assess whether additional capacity is necessary? Will technical assistance and capacity building detract from providing "retail" counseling to community members?**

Capacity building and staying abreast of best practices in the housing counseling industry is essential. To this end, additional capacity particularly if it is funding is always necessary. On going education, networking and training will not detract from providing "retail" counseling to community members who are adept at multi-tasking.

- **What types of partnerships do non-profit and commercial institutions create to address issues of consumer education, particularly in light of questionable or not-so-favorable lending terms to unknowing consumers?**

Non-profit organizations and commercial institutions such as the banking industry should be encouraged to create public/private partnerships in order to meet the financial literacy needs of our clients. This will assist clients in becoming familiar with the general process of purchasing a home, and offers instructions on how to become and remain a successful homeowner. This will also assist the mortgage financing industry to promote a good image and to capture an ignored market share.

According to a May 15, 2000 article in the Atlanta Journal Constitution entitled "Lost Homes: DeKalb Foreclosures Top Metro Area," DeKalb County Georgia leads in foreclosure rates in Greater Metro Atlanta. DeKalb County has had 2,269 forced foreclosures since November 1999, compared to 2,106 in Fulton County. That is more than twice the number of foreclosures in Cobb and Gwinnett during that period and nearly three times as many in Clayton County.

The home repossession boom has followed the explosion of residential building in south and east DeKalb County. Officials and credit counselors cite a variety of causes: the lure of bigger but lower-priced homes in south DeKalb to first-time buyers, family crisis such as loss of a job, divorce or death of a spouse; and even predatory lenders.

The Green Forest Community Development Corporation H.O.M.E. program is designed to address the critical issue of delinquency and foreclosure prevalent in DeKalb County, one of the highest in the nation. Through modifying the pre-purchasing counseling and training components of the existing program and expanding the post counseling elements to include loss mitigation education, this will address the identified need within our community to stem the rising tide of delinquencies and foreclosures among Greater Metro Atlanta and DeKalb County Homeowners and sets the benchmarks of collaborative efforts in Homeownership programs that can be replicable regionally and nationally.

Conclusion

In closing I would like to leave this plea with you. The time is now to establish a national workable housing policy and set standards and remove barriers to affordable housing. The time is now to provide sufficient funding to State and local agencies to include non profit organizations and the faith-based community to fulfill their housing counseling mission. The time is now to encourage the creation of public/private partnerships for the provision of affordable housing and to do all that is feasible to establish a workable solution to the housing crisis that is experienced by the low-to- moderate income in America.

Thank you again for the opportunity to testify on the ""Successful Homeownership and Renting through Housing Counseling Act." H.R. 3938, "Expanding Housing Opportunities through Education and Counseling." I would be happy to answer any questions that the Subcommittee may have.

Resume

Chapman D. Walsh
2505 Columbia Drive
Decatur, GA 30034
(404) 288-0206

EXPERIENCE

1998-Present GREEN FOREST COMMUNITY DEVELOPMENT CORPORATION
Decatur, GA. "Call DeKalb H.O.M.E." Director

1990-1998 Realtor. CENTURY 21 MC VISION REAL ESTATE INC., NEW HAVEN, CT

- Created state-of-the-art first-time homebuyer seminars.
- Market program through media: television, radio, and newspaper.
- Collaborate with city, banks, realtors and developers to enhance homebuyer programs.
- Represent corporation on numerous boards and partnerships.
- Pre-qualify prospective buyers, coordinate home search.
- Execute and arbitrate offer and contract.
- Monitor contracts with attorney through closing.
- Coordinate loan origination, and expedite commitment from lender.

1988 - 1990 URBAN MANAGEMENT, INC., NEW HAVEN, CT
Property Manager

- Interviewed, screened and assessed prospective tenants.
- Prepared and executed leases for accepted candidates.
- Coordinated maintenance system for properties.
- Inspected properties for government agencies.
- Scheduled sessions to mediated and resolve tenant disputes.
- Initiated and finalized eviction process.
- Prepared monthly financial reports.

1979 - 1988 STATE OF CT., DEPT. OF MENTAL RETARDATION, MANSFIELD, CT
MRW III

- Managed daily operation of group home.
- Developed with staff, work programs for independent living.
- Monitored, counseled, and conducted life skills training: time management, employment, and banking.
- Coordinated support systems and modified needs assessments as client gained new skills.

EDUCATION & PROFESSIONAL AFFILIATION

- **BA, Liberal Arts, University of Connecticut – 1981(pending)**
- **State of Georgia Licensed Real Estate Sales Person - 1997**
- **New Haven Board of Realtors - 1994**

AWARDS

- **Property/Leasing Manager of the Year 1996**
- **Lead Sales Representative 1994 and 1995**
- **Realtor of the Year 1994**
- **Top Rental Agent 1993**

The Amount And Source Of Federal Grants Or Contracts Received Within The Current And Prior Two Fiscal Years

Green Forest Community Development Corporation has received (in 2003) **Community Development Block Grant Funds** of $**35,000** from the **DeKalb County Department of Human and Community Development Department**, 1807 Candler Road, Decatur, Georgia 30032, (404) 286-3349. http://www.co.dekalb.ga.us/commdev/

Green Forest Community Development Corporation has received (in 2002) **HUD HOUSING COUNSELING** Funds of $**18,000** from **Housing Opportunity, Inc**. 133 Seventh Avenue, McKeesport, PA 15134, Telephone (412) 664-1590.

Green Forest Community Development Corporation has received (In 2003_ **HUD HOUSING COUNSELING** Funds of $**35,000** from Home Free-USA. 318 Riggs RD, NE, Washington, DC 20011, Telephone 1-800-289-4632. **http://www.homefreeusa.org/**

Testimony Of Chapman Walsh, GFCDC H.O.M.E. Director. H.R. 3938, Expanding Housing Opportunities through Education and Counseling Act, Testimony before Subcommittee on Housing and Community Opportunity Committee on Financial Services US House of Representatives. March 18, 2004.

For further information please contact:

Ralph E. White, Sr.
Executive Director
GREEN FOREST COMMUNITY DEVELOPMENT CORPORATION
3299 Rainbow Drive, Decatur, Georgia 30034
Tel. (404) 486-1120 Fax (404) 486-5733
www.gfcdc.org

STATEMENT OF JOHN C. WEICHER

Assistant Secretary for Housing – Federal Housing Commissioner

U.S. Department of Housing and Urban Development

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

March 18, 2004

Good morning, Chairman Ney, Vice Chairman Green, Ranking Member Waters, and distinguished Members of the Subcommittee. Thank you for the opportunity to testify regarding HUD's Housing Counseling Program.

The Benefits of Housing Counseling

Housing Counseling plays a key role in support of the Administration's goal to increase homeownership and close the ownership gap between minority and non-minority households. The President's *Blueprint for the American Dream Partnership* establishes a minority homeownership goal of 5.5 million additional minority homeowners by the end of the decade and specifically recommends educating more people regarding the home buying process to help achieve this goal. Approximately half of HUD's housing counseling funds support pre-purchase counseling and homebuyer education. Based on our experience in recent years, we project that the FY2003 funds will help about 60,000 families become homeowners this year. Moreover, an additional 140,000 families will continue to work with their counselors to become mortgage-ready during the following year. These 200,000 families represent approximately 2/3 of the families who will receive one-on-one counseling from agencies supported by HUD grant funds. Of the remaining families who receive homebuyer counseling, a portion will determine that they are simply not in a position to become homeowners. We believe that this decision is equally as important as the decision to buy a home. These educated consumers are making a wise decision about their financial capacity to sustain homeownership. In so doing, these families are avoiding subprime, or even predatory, loan products and are putting themselves in a better position to achieve homeownership in the future.

The counseling program also helps to ensure that these new homebuyers remain in their homes. Approximately 20 percent of the housing counseling grant funds support the delivery of post-purchase counseling to help families pay their bills on time, perform basic home maintenance, and make their mortgage payments. Again, based on recent experience, the FY2003 funds will help about 135,000 families to stay in their homes, thanks to post-purchase counseling. I have attached a table to my testimony, which disaggregates our housing counseling expenditures by type of counseling.

Housing counseling also supports the Department's efforts to combat predatory lending, another key Presidential priority. We believe that housing counseling represents one of the best ways to prevent predatory lending. Educated consumers are less likely to accept excessively high fees or charges or unreasonable loan terms.

Recognizing the importance of housing counseling in the homebuying process, the Administration requested and Congress increased funding for the program from $20 million in FY2001 to $40 million in FY2004. The Administration has requested $45 million for FY05, reflecting the Administration's continued commitment to expanding homeownership opportunities in this country.

The Housing Counseling Program supports FHA's and also numerous other programs throughout the Department. The impact on the achievement of HUD's mission is far-reaching. For example, housing counseling is a requirement for the Homeownership Voucher Program and for FHA's Home Equity Conversion Mortgage (HECM) Program for seniors. HUD's Office of Community Planning and Development estimates that 90% of recipients of down payment assistance through the HOME program receive housing counseling, which helps them more effectively utilize those resources. Similarly, many recipients of self-help housing assistance through HUD's SHOP program receive housing counseling.

The Housing Counseling Program accounts for by far the largest share of HUD's specific funding for counseling. Only two programs within HUD exclusively fund counseling-related activities. The Fair Housing Initiatives Program devoted $3.8 million in FY 2004 for education and outreach grants to nonprofits and the Resident Opportunities for Self-Sufficiency program offers grants for life-skills training, including financial literacy. In addition, funds from the HOME, CDBG, HOPE VI, Self-Help Homeownership (SHOP), and Special Needs Assistance grants for the homeless may be used to pay for counseling services. However, the allocation for funds for counseling is at the discretion of the grantees

Program Description

The Housing Counseling Program supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. The primary objectives of the program are to expand homeownership opportunities and improve access to affordable housing. Counselors provide guidance and advice to help families and individuals improve their housing conditions and meet the responsibilities of tenancy and homeownership. Counselors also help borrowers avoid predatory lending practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and foreclosure.

Agencies funded through this program may also provide Home Equity Conversion Mortgage (HECM) counseling to elderly homeowners who are looking to convert equity in their homes into income that can be used to pay for home improvements, medical costs, living expenses, or other expenses.

To participate in the program, an organization must first be approved by HUD as a housing counseling agency. Approval entails meeting various requirements relating to experience and capacity, including nonprofit status, a minimum of one year of housing counseling experience in the target community, and sufficient resources to implement a housing counseling plan. HUD maintains a list of HUD-approved housing counseling agencies so that individuals and families in need of assistance can easily access the nearest HUD-approved housing counseling agency, via HUD's website or automated 1-800 hotline.

Currently, there are 1682 HUD-approved housing counseling agencies, including: 632 Local Housing Counseling Agencies (LHCAs) with 588 branch offices; and 462 affiliates and branches of national and regional intermediaries. In addition, 16 State Housing Finance Agencies (HFAs) provide counseling services with HUD housing counseling grant funds.

National and regional intermediaries provide and manage sub-grants to networks of affiliated local housing counseling agencies, to which they also provide training and technical assistance. HUD values national and regional intermediary participation in the program because each intermediary supports a network of local agencies, providing ongoing training and uniform quality control. Many of the intermediaries and their affiliates provide multiple housing services or effectively partner with other industry organizations to help their clients access affordable home purchase programs, quality lending products, or down payment and closing cost assistance.

As a result of the significant increase in programmatic appropriations in FY 2003, HUD approved five new national intermediaries, including Mission of Peace Housing Counseling Agency, HomeFree USA, Community Housing Services, Inc., Structured Employment Economic Development Corp. (Seedco) and the American Association of Retired Persons (AARP). Both Mission of Peace and HomeFree USA are faith-based organizations.

The Funding Cycle

HUD issues a yearly Notice of Funding Availability (NOFA), a competition for housing counseling grants, for which only HUD-approved housing counseling agencies can apply. In FY 2003, nearly $38 million was awarded in 443 grants to over 350 groups nationally. Over $54 million was requested. The average award size for local housing counseling agencies was $36,000.

The Housing Counseling NOFA is typically published in early spring as part of HUD's consolidated Super NOFA. Applications are due in early summer, and award announcements are made at the end of the fiscal year. Agencies funded through the FY 2003 Housing Counseling NOFA are currently expending those grant funds. That is why the most recent program results data correspond to the FY 2002 appropriation.

FY 2003 Program Data

As the table accompanying my testimony shows, HUD counseling funds served over 625,000 families in FY2003, with funds appropriated in FY2002. Over 80 percent received counseling to help them either buy a home or keep their home. Fifty-three percent of clients for whom income level was reported, had incomes at or below 50 percent of the area median income, and 95 percent of clients reportedly earned less than the median income in their area. Among this group of low- and moderate-income households, over 54,000 achieved their goal and were able to purchase a home. Counseling agencies reported that another 33,000 were on track to be mortgage-ready

within ninety days. HUD's counseling funds also assisted over 115,000 families to maintain, or locate and secure rental housing, and thus contributed to HUD's mission to provide decent, affordable housing for all Americans.

Predatory Lending

The Department believes that consumer information and education are among the most effective tools available to reduce predatory lending. An informed borrower is better able to determine the loan product that best suits his or her individual situation among competing products. Counselors also help borrowers avoid predatory practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and eventually foreclosure.

The Housing Counseling Program supports the provision of pre- and post-purchase counseling, and consumer education, activities that counter predatory lending by providing potential homebuyers and homeowners with the information they need to make smart decisions. Specifically, $2.7 million in Housing Counseling Grants was set-aside in FY 2003 for counseling and education activities targeting predatory lending. This same level of commitment is anticipated for FY 2004.

Program Management and Quality Control

HUD is investing substantial money, time and effort to continually improve the program and the Department's ability to assure that desired outcomes are actually achieved. Those efforts include regular monitoring of program participants, counselor training for HUD-approved agencies, improved information management, and a new/ proposed Regulation to codify program requirements derived from the program legislation.

Every two years, HUD performs an on-site review of every HUD-approved housing counseling agency, and if applicable, their sub-grantees, to ensure that their performance is consistent with their housing counseling plan and that they are in compliance with program requirements. Reviewers may provide technical assistance based on their findings, and results of the review are factored into grant application scores.

For the past three years HUD has given the AARP Foundation significant funding to develop training and quality control measures for Congressionally mandated counseling related to Home Equity Conversion Mortgages (HECM). The money has supported development of a network of specially trained HECM counselors, who are employees of local HUD-approved, nonprofit agencies. HECM Counselors qualify to join the project's counseling network by scoring well on a national reverse mortgage counseling exam developed and administered by the AARP Foundation project, which was developed with HUD support. This year HUD funding will enable the project to add more counselors and pay for upgrading the project's online reverse mortgage calculators,

developing a formal counseling quality assurance program, and strengthening the project's client screening and appointment scheduling systems.

Based in part on HUD's successful partnership with the AARP Foundation, HUD will soon publish an $8 million Housing Counseling Training Notice Of Funding Availability (NOFA) to train counselors, and produce training and educational materials, on a broad array of housing counseling topics. Tuition and travel assistance for counselors working for community-based groups will be allowable costs under the grant. The goal of this new funding is to increase the knowledge and skills of all counselors who are part of the HUD-approved network of housing counseling agencies.

The Housing Counseling Program is in the process of procuring an internet-based Client Management software system that is designed to improve and facilitate analysis of a client's unique financial situation and readiness for home purchase; provide a counselor with quick access to information on a variety of mortgage products, down payment and closing cost assistance; simplify and improve the collection of program-related activity data and its submission to HUD, including annual and quarterly reports; and encourage partnerships among counseling agencies and industry groups.

A draft Housing Counseling Regulation, the first-ever set of regulations for the housing counseling program, is making its way through HUD's clearance process. The new Regulation will clarify and codify the policies governing the program.

Conclusion

I hope that this overview of HUD's Housing Counseling Program clearly demonstrates the Department's commitment to the program and to the delivery of high quality counseling services across the nation. I believe that our efforts to expand and improve the housing counseling program over the last several years represent the very first steps in proving the success of this program. Already, the program data shows that more families are receiving counseling services than ever before; more families are purchasing or keeping their homes; and more families are finding the help they need to secure decent and affordable rental housing.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to meet with you today to discuss this important program.

Actual Clients Served with FY2002 Funding*
During FY2003

	**Counseling Clients Covered by HUD Grants	***Counseling Clients served by all HUD-approved Agencies
Pre-purchase homebuyer counseling	153,563	257,843
Foreclosure prevention counseling	71,735	144,150
Non-delinquency post-purchase counseling	15,621	27,227
Home Equity Conversion Mortgage (HECM)	16,177	33,544
Homebuyer/homeowner educational group sessions	256,531	240,652
Rental counseling	92,608	322,330
Homeless counseling	22,452	66,258
Total	**628,687**	**1,092,004**

* FY2002 appropriations = $20 million
** Clients covered by HUD grant funds represent clients whose counseling costs are covered by a HUD grant.
*** Clients served by HUD-approved agencies represent all clients who receive counseling from agencies that are part of the HUD-approved network. Only a portion of agencies that are HUD-approved receive HUD grant funds, but HUD collects data on all clients served by HUD-approved agencies.

Testimony

before the

Subcommittee on Housing and Community Opportunity

Regarding

Successful Homeownership and Renting through Housing Counseling

March 18, 2004

Testimony written and presented by:

Odette Williamson
Staff Attorney
National Consumer Law Center
77 Summer Street, 10th Floor
Boston, MA 02110
617-542-8010
owilliamson@nclc.org
www.consumerlaw.org

on behalf of
Low-income clients of the National Consumer Law Center

Testimony
Before the
Subcommittee on Housing and Community Opportunity
Regarding
Successful Homeownership and Renting through Housing Counseling

Mr. Chairman, Ms. Waters, and Members of the Committee, we thank you for inviting us to testify regarding the homeownership housing education and counseling industry. The National Consumer Law Center[1] submits the following written testimony on behalf of our low-income clients.

We fully support the Committee's efforts to strengthen the housing counseling and education offered to low-income consumers. The achievements of the housing education and counseling industry are exemplified by the steady increase in the number of low-income and minority first-time homebuyers over the last decade. Your effort to enhance the counseling programs currently operating through HUD and to foster other private counseling programs is laudable. With the increasing threat posed by predatory lending, and the decades long trend of increasing foreclosures, now more than ever, a strong housing counseling industry is needed to sustain the gains made in homeownership among low-income and minority consumers. We will address many of the issues critical to this industry as outlined below.

I. A strong homeownership education and counseling industry can benefit consumers but is not a panacea for predatory lending.
II. NCLC has been actively involved in facilitating counseling to avoid foreclosures and predatory lending.
III. More resources should be devoted to post-purchase education and counseling.
IV. More funding is needs to support non-profit organizations and to stimulate research into the industry.
V. The proposed legislation will support foreclosure avoidance counseling, but needs some tweaking.
VI. Recommendations and conclusion.

I. A strong homeownership education and counseling industry can benefit consumers but is not a panacea for predatory lending.

Homeownership education and counseling is an irreplaceable requirement for affordable loan products aimed at low-income and minority consumers. An effective counseling and education program can offer many benefits to consumers and the lending

[1] The National Consumer Law Center, Inc. (NCLC) is a non-profit Massachusetts Corporation, founded in 1969, specializing in low-income consumer issues, with an emphasis on consumer credit. On a daily basis, NCLC provides legal and technical consulting and assistance on consumer law issues to legal services, government, and private attorneys representing low-income consumers across the country. NCLC publishes a series of sixteen practice treatises and annual supplements on consumer credit laws, including Truth In Lending (5th ed. 2003) and Cost of Credit (2nd ed. 2000) and Repossessions and Foreclosures (5th ed. 2002) as well as bimonthly newsletters on a range of topics related to consumer credit issues and low-income consumers.

industry. **Pre-purchase education and counseling** has been credited with expanding homeownership in underserved communities, in part, by producing informed borrowers knowledgeable about the lending process and better prepared to accept the responsibilities of homeownership. Pre-purchase education and counseling has also been found to lower the risk of default:

- Borrowers who received any form of pre-purchase counseling (classroom style, by telephone, or individually) as part of Freddie Mac's Affordable Gold lending program had a 19 percent lower delinquency rate than those who received no counseling.
- Borrowers who received one-on-one counseling had a 34 percent lower rate delinquency rate.[2]

An important part of the pre-purchase counseling process is working with potential borrowers to remove barriers to homeownership. The most often cited barriers are affordability and credit problems.[3] Many community-based non-profit agencies work with potential homeowners to build or repair credit. Others may offer financial assistance to supplement down payments, closing costs, or monthly payments. This form of assistance may take the form of deferred payment second mortgages with special terms. Without such assistance the barriers to homeownership may be insurmountable for many low-income individuals.

An educated and informed borrower is also a benefit to the mortgage industry. The group instruction offered by many non-profit agencies and the follow-up assistance provided to potential borrowers produces a pool of mortgage ready applicants. Moreover, as has been well documented, collaborations between lenders and non-profit agencies allow the lending industry to provide outreach and marketing to underserved communities, helping lenders to satisfy CRA requirements and GSEs to meet their affordable lending goals. It is also credited with building trust in the mortgage system among that population.[4]

Post-purchase education and counseling can stabilize homeownership in underserved communities. Post-purchase education and counseling refers to a range of services -- from instruction on home maintenance, budgeting, and foreclosure prevention, to crisis intervention for delinquent borrowers, or counseling to prevent or assist victims of predatory lending. The intensive, one-on-one default and delinquency counseling most often provided by non-profit agencies reduces the incidence of foreclosure among low-income households. Counselors work closely with borrowers to help them understand their options and act as intermediaries in negotiating between borrowers and servicers to put the best workout in place. Moreover, if a workout is not

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[2] Abdighani Hirad and Peter M. Zorn, *A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling*, May 2001, at 3.

[3] See George W. McCarthy and Roberto G. Quercia, *Bridging the Gap Between Supply and Demand: The Evolution of the Homeownership Counseling Industry*, Report No. 00-01, Research Institute for Housing America, 2000, at 19.

[4] Hirad and Zorn, supra, note 2 at 5.

feasible or unsuccessful these agencies ease the homeowner's transition to other affordable housing.

One of the most important benefit that education and counseling can provide is to make homeowners less vulnerable to predatory lending. Borrowers who receive individual counseling may be more likely to seek assistance before entering into a high-cost loan. Those who have been victimized by a predatory lender may be more apt to seek out assistance before foreclosure or may be dissuaded from entering (or being "flipped") into another loan. A knowledgeable counselor, if provided with advance information about the terms of the loan, can steer homeowners away from predatory lenders to affordable alternative loan products.

While good counseling may potentially reduce the incidence of predatory lending in low-income and minority communities, counseling will not stop predatory lending. Only by changing the laws governing mortgage lending – to stop lenders from financing high points and fees, charging exorbitant prepayment penalties, refinancing special loan programs for first-time buyers into high-cost credit – can we fully address the problem of predatory mortgage lending. Clear prohibitions to stop the most egregious practices, coupled with assignee liability are what is needed to tackle this problem. NCLC has proposed that legislation to address predatory lending should include the following:

- Limits on the points and fees which can be financed by lenders.
- Full assignee liability that is capped at the amount of the loan.
- Amend the income tax rules to limit home secured debt to debt which is obtained for reasons relating to the home. In exchange, individual taxpayers should be permitted some additional measure of deductions for personal credit not secured by the home.

Moreover, as discussed below, only a fraction of the organizations that provide pre-ownership housing counseling and education, also provide assistance to established homeowners. That assistance will most likely take the form of group instruction on maintenance and other issues related to owning a home. Very few organizations provide pre-refinance counseling or assistance to victims of predatory lending. Many of the homeowners most at risk – including the elderly – are long time homeowners with substantial amounts of equity accrued in their homes. They are not the traditional clients of housing counseling organizations (who often focus on first-time homebuyers) and they are not likely to seek assistance prior to signing a loan. Aggressive outreach and an effective public education campaign is necessary to get these potential victims to seek help before it's too late.

II. NCLC has been actively involved in facilitating counseling to avoid foreclosures and predatory lending.

The National Consumer Law Center (NCLC) has long recognized that housing education and counseling can be a benefit to low-income consumers. Our work to preserve homeownership among low-income families and stem the spread of predatory

financial practices that target the economically disadvantaged has included the essential component of promoting housing counseling.[5] Over a decade ago we established the Massachusetts Foreclosure Prevention Project as the first step toward accomplishing this goal.

This statewide foreclosure prevention project has served as a model to other states on how to use post-ownership housing counseling to prevent foreclosures and as one tool to address predatory lending. In Massachusetts, the Center leads a collaboration of community-based housing counseling agencies, local lenders and city officials to provide direct assistance to homeowners facing foreclosure. Between 1995 and 2001 our Massachusetts Foreclosure Prevention project provided intensive mortgage and financial counseling to 1,200 families who avoided foreclosure and provided targeted assistance to approximately 300 families to negotiate a mortgage workout to save homes from foreclosure.[6]

The Center provides extensive training nationwide to housing counselors and advocates on foreclosure prevention and predatory lending. The Center was awarded grants from HUD to teach housing counselors about its loss mitigation program. In addition, the Center has received grants or contracts from NRC, Fannie Mae, Freddie Mac, state and city governments, and housing counseling agencies nationwide to train housing counselors or support the foreclosure prevention project

Over the past five years, NCLC has trained over 2,000 housing counselors and advocates on foreclosure prevention options to help clients keep their homes. We have developed a highly acclaimed course (for both beginners and experienced counselors), *Preserving the American Dream*, that has been sponsored by both the U.S. Department of Housing and Urban Development and the Neighborhood Reinvestment Corporation. Most recently, the Center was awarded a grant from the Ford Foundation to conduct predatory lending training for housing advocates and attorneys across the nation. For the past three years the Center has been working with Freddie Mac's "Don't Borrow Trouble" campaign and conducting all of the trainings for this campaign. NCLC has trained hundreds of housing counselors and advocates on ways to fight predatory lending by building coalitions of counselors, advocates, government officials and concerned

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[5] NCLC has a long history in the debate surrounding predatory mortgage lending. The Center became aware of predatory mortgage lending practices in the latter part of the 1980s, when the problem began to surface in earnest. Since that time, NCLC's staff has written and advocated extensively on the topic, conducted training for thousands of legal services and private attorneys on the law and litigation strategies to defend against such loans, and provided extensive oral and written testimony to numerous Congressional committees on the topic. NCLC's attorneys were closely involved with the enactment of the Home Ownership and Equity Protection Act in Congress, and the initial and subsequent rules pursuant to that Act. NCLC attorneys, on behalf of their low-income clients, have actively participated with industry, the Federal Reserve Board, Treasury, and HUD in extensive discussions about how to address predatory lending.

[6] In addition to community-based organizations, NCLC's project has worked with legal services, private pro-bono bar, and city and state officials to raise public awareness about predatory lending and the deleterious effect of foreclosures on low-income and minority communities; to promote alternative sources of credit for low-income families; to increase the number of advocates who are qualified to counsel people in financial distress; and help public officials strengthen important consumer protection laws.

lenders. These trainings have been bolstered by our publication of *Stop Predatory Lending: A Guide for Legal Advocates (2002)*. The book, which is the first comprehensive manual of its kind, explains the causes of the phenomenon and outlines both legal remedies and community solutions to predatory lending.

III. More resources should be devoted to default and delinquency counseling and predatory lending counseling and assistance.

The capacity of non-profit and state government agencies to offer default and delinquency counseling or predatory lending assistance must be expanded to stem the alarming increase in the foreclosure rate over the past two decades. The homeowners who are most at risk of foreclosure are low-income consumers, suffering the effects of the downturn in the economy and targeted by predatory lenders. HUD is mandated under program guidelines to reduce defaults and foreclosures.[7] There is much more that HUD can do to fulfill this mandate.

The homeownership education and counseling industry has evolved over the last thirty years to address the needs of traditionally underserved populations in the housing marketplace. At its inception, industry efforts were focused on reducing the substantial number of defaults under HUD's Section 235 program through post-purchase counseling aimed at delinquent borrowers. However, with the advent of affordable loan products, encouraged and supported by federal policy and designed to increase homeownership rates among traditionally underserved populations, the industry's focus shifted dramatically to pre-purchase homeownership education.[8] The result has been a marked increase in homeownership among low-income and minority Americans.

Today, the housing education and counseling industry is characterized by a diverse array of programs and approaches to increasing homeownership. Almost all organizations provide pre-purchase education and counseling to low-income individuals seeking to purchase their first home. The programs are delivered through home study, classroom or other group instruction, individual counseling, or over the telephone. Counseling typically refers to one-on-one consultation tailored to an individual's need as opposed to a generic program Non-profit agencies, government, for-profits, lenders, realtors, brokers and mortgage insurance companies administer these programs. Pre-purchase programs are dominated by telephone and home study methods administered by lenders and other for-profit organizations.[9]

A very small subset of the housing and education industry, mostly community based non-profit or government agencies, administer post-purchase education and counseling programs. Post-purchase education is often provided to new homeowners and includes instruction on home maintenance, budgeting, landlord/tenant and other

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[7] See the HUD Housing Counseling Handbook (7610.1 Rev-4), section 1-3(B). Half of the department's program objectives are related to reducing defaults or foreclosures.

[8] See McCarthy & Quercia, supra, note 3 , at 5.

[9] At least one study has documented that telephone counseling has no statistically significant impact on borrower delinquency. See Hirad and Zorn, supra, note 2 at 3

issues. Some non-profit agencies (and increasingly for-profits) offer default and delinquency counseling to homeowners in an attempt to bring them current on their mortgage or when necessary, transition them to less costly housing through means other than foreclosure, pre-refinance counseling to those seeking loans, or assistance to victims of predatory lending. The demand for default and delinquency counseling and predatory lending counseling has exploded over the last few years. There are a number of factors fueling the demand, but three of the most prominent are:

- ***Steep increase in the number of loans in foreclosure.*** The number of mortgages in foreclosure in the United States climbed to a record high during 2002.[10] This caps a twenty year trend of rising foreclosure rates. More alarming, the rate of government-backed mortgages in foreclosure (guaranteed or insured by the FHA, VA or RHS) is typically two or more times higher than the rate for conventional mortgages.[11] The Mortgage Bankers Association's National Delinquency Survey noted that the seasonally adjusted percentage of FHA loans in which foreclosures were started in the second quarter of 2003 was the highest ever recorded in the survey, eroding the hard fought gains of government and the housing industry to increase homeownership in underserved communities.

- ***Dominance of subprime lending in low-income and minority communities.*** The drastic increase in the foreclosure rate is due in large part to subprime lending. The foreclosure rate for subprime mortgages nationwide, including the abusive ones targeted at low-income homeowners – is **twelve** times higher than for prime conventional mortgages.[12] Many studies have documented the prevalence of subprime lenders in low-income and minority communities.[13] African-American, Latino and low-income homeowners are disproportionately represented in the subprime foreclosure rate and are losing their homes at a faster rate than others.

- ***New state laws challenging predatory lending.*** New state anti-predatory lending laws require or recommend counseling before homeowners can refinance their mortgages into new high-cost loans.[14] This common recommendation is designed to ensure that homeowners know the risks and obligation of taking on these loans. In addition, the federal bankruptcy reform

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[10] Peter T. Kilborn, *Easy Credit and Hard Times Bring a Flood of Foreclosures*, N.Y. Times, November 24, 2002, at Section 1, Page 30, Column 3; Queena Sook Kim, *Foreclosures Hit Record Levels*, Wall St. Journal, September 10, 2002, at D1.

[11] See e.g., National Delinquency Survey, Mortgage Bankers Association, September 30, 2003, for 3rd Quarter of 2003.

[12] *Id.*

[13] See e.g., Calvin Bradford, *Risk or Race: Racial Disparities and the Subprime Refinance Market*, Center for Community Change (May 2002). Available at: http://www.communitychange.org/default.asp.

[14] See e.g., Georgia, Ga. Code Ann. § 7-6A-5(7); New Jersey, N.J.S.A. 46:10B-26(g); New Mexico, N.M. St. §58-21A-5(g); North Carolina, N.C. Gen. Stat. § 24-1.1E©)(1); New York, N.Y. Gen. Banking Law § 6-1(1).

bill that has passed both houses of Congress mandates counseling before a consumer can file for bankruptcy.[15]

While the demand for default and delinquency counseling has mushroomed among low-income and other homeowners, the capacity of non-profit agencies to meet this need is highly questionable. Based upon conversations with housing and credit counselors, we believe that possibly fewer than half of these agencies provide such specialized service or can meet the need in their communities. Of those that provide this service, they may do so on an occasional basis or may lack the staff specifically dedicated to providing this type of counseling.[16]

The barriers to providing effective default and delinquency counseling are numerous. Default and delinquency counseling is time intensive and expensive. To provide effective assistance, counselors must meet with homeowners face-to-face, review relevant paperwork such as letters from the lenders, foreclosure notices, and the like, discuss their budgets thoroughly, help them apply for public assistance, and provide other services to increase their income or decrease expenses. Then the counselor will work with the homeowner and the lender or servicer to craft an appropriate workout. As most cases are referred after months of default, counselors deal with the most difficult cases. This type of counseling cannot be performed effectively from afar by telephone counseling only.

Even fewer non-profit agencies provide any type of pre-refinance counseling or services to assist victims of predatory lending.[17] The agencies that provide this service most often provide it *after* the person has been victimized by a predatory lender. To provide effective service, counselors must be skilled and adequately trained to review mortgage documents that may contain complex or hidden terms disadvantageous to the homeowner. Correctly spotting predatory mortgage terms is an essential ability. Counselors also need to able to make an appropriate referral to an attorney as repayment plans without a negotiated reduction of the principal of a predatory loan is never advisable.

Moreover, the homeowner rarely receives relevant loan documents in time for counselors to review before the loan closes. The Good Faith Estimate is rarely given in advance of closing in the subprime market, despite the statute's mandate that it be given within three days of application.[18] Truth in Lending early disclosure requirements only

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[15] See Section 106(a) of H.R. 975.

[16] See Mark Wiranowski, *Sustaining Home Ownership Through Education and Counseling*, Neighborhood Reinvestment Corporation, 2003, at 15.

[17] Where available, pre-refinance counseling is usually designed to help homeowners avoid predatory loans and may involve the counselor reviewing the terms of the prospective loan with the homeowner before closing to make sure they do not qualify for a better loan or to spot hidden, disadvantageous terms. Some community-based non-profits and government agencies offer this service to borrowers. However it is not very common and the homeowners who contact these agencies have often already entered into a predatory loan.

[18] 12 U.S.C § 2603. There is no remedy if a lender violates this rule, which is the likely reason the rule is constantly violated.

kick in for purchase money mortgages, not refinances.[19] No other laws, of which we are aware, require the lender to provide the loan contract or mortgage to the homeowner in advance. In combination, these documents would reveal many predatory loan terms. To make this type of counseling effective, early comprehensive disclosure is vital.

The demand for counseling to prevent foreclosure or assist victims of predatory lending has clearly outstripped the capacity of non-profit and other agencies to provide such assistance. Given the susceptibility of low-income borrowers to predatory lending and foreclosure, HUD must encourage the growth of default and delinquency and predatory lending counseling programs in the industry. Providing these services is more expensive, as it takes more time to assist homeowners and counselors must be well trained. As detailed below, non-government support for this type of service is currently very limited. More funding and other resources should be specifically allocated to these services. In its 2003 SuperNOFA funding competition for HUD-approved agencies, HUD specifically allocated money for combating predatory lending. This effort should be expanded.

IV. More funding is needed to support legitimate non-profit organizations and to stimulate research into the industry.

Overall funding for housing counseling has declined. Agencies seek funding from foundations, local government or private entities; non-profits may seek funding from HUD. Funding from HUD covers approximately one-quarter of program costs for HUD- approved agencies.[20] Not all HUD-approved agencies receive funding each year. Although HUD has steadily increased its funding for housing counseling, non-profit agencies in particular are struggling to make up the shortfall between the funding received and the services provided. HUD must increase its level of funding even further to ensure that legitimate agencies with strong programs are supported.

It is important that HUD funding be targeted to legitimate *non-profit* organizations that provide the most effective types of services to low-income consumers. Community based non-profit housing agencies have consistently been found provide the most successful – but the most time intensive – types of education and counseling services.[21] They also provide a broad range of services either directly or through referral to other organizations. However, non-profit housing counseling agencies are competing with more organizations (both non-profit and for-profit) for the small pool of funding and resources available to conduct this work.

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[19] 15 U.S.C. § 1638(b)(2).

[20] See McCarthy & Quercia, supra, note 3, at 31 fn 2.

[21] For example, non-profit agencies are less likely to provide telephone counseling, and more likely to provide individual counseling, which one study documented was the most effective method of reducing 90-day delinquency rates. Telephone counseling had no statistically significant impact. See Hirad and Zorn, supra, note 2 at 3.

The counseling world includes many counselors, both for-profit and non-profit, which offer some type of credit counseling to consumers. For many years, legitimate non-profit credit counseling agencies (traditionally funded by creditors as a means to help consumers avoid bankruptcy on their unsecured debt) were the primary alternative to housing counselors. So on the one hand, consumers seeking pre-ownership counseling had HUD certified counselors, and consumers seeking assistance with their overwhelming unsecured debt could go to legitimate non-profit consumer credit counseling agencies. There were few alternatives, and little overlap. Neither type of agency provided assistance on home secured debt.

The situation has changed in recent years as credit counseling agencies have increasingly begun to offer housing counseling services as well. However, there are many types of credit counseling agencies, some good, and many not. Legitimate, honest credit counselors are often uniquely qualified to help consumers. They are already working with consumers to address unsecured debt and when properly trained, can provide a holistic service by assisting consumers with delinquent secured and unsecured debt.

Unfortunately, there is also a negative side to the new increase in credit counseling services. Recent abuses by so-called non-profit credit counseling agencies have raised serious questions about the quality and legitimacy of credit counseling services. Many of these faux non-profit credit counseling agencies have cost strapped consumers precious dollars while providing little or no meaningful service.

Aggressive firms masquerading as non-profit organizations have been among the credit counseling agencies that are most likely to deceive or to gouge consumers. Massive cuts in creditor funding for agencies has exacerbated this trend, leaving many well-intentioned organizations without sufficient funding to provide appropriate services.

To make up these funding deficits, traditional *credit* counseling agencies have increasingly sought out housing counseling dollars. Some of these agencies have done so with the best of intentions and are developing quality housing counseling programs. Others are only chasing available dollars.

NCLC and the Consumer Federation of America (CFA) highlighted many of these problems in an April 2003 report, *Credit Counseling in Crisis: The Impact on Consumers of Funding Cuts, Higher Fees and Aggressive New Market Entrants.* [22] Congress is beginning to focus on the serious consumer abuses caused by the new consumer credit counselors. The House Ways and Means Committee, Subcommittee on Oversight held headings on these problems in November 2003. The Senate Government Affairs Committee, Subcommittee on Investigations is scheduled to hold hearings on the same subject next week, on March 24, 2004.

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[22] The executive summary is attached at the end of this testimony. The full report is available for downloading from either the NCLC web site (www.nclc.org) or the CFA web site (www.consumerfed.org).

State and federal enforcement agencies are just beginning to deal with the rogue credit counseling agencies. State attorney generals have sued a number of major agencies in the past year and the I.R.S. and F.T.C. have launched extensive investigations. However, many agencies continue to line their own pockets at consumer expense.

There is much to learn from the credit counseling experience. Allowing agencies free rein to hide behind charitable tax-exempt status is unacceptable. We have the opportunity now to ensure that sufficient quality controls are in place to avoid similar problems in the housing counseling arena.

In addition to questions surrounding the credit counseling industry, there are many questions outstanding about housing counseling and education industry in general. Despite the industry's long history, there are only a handful of studies documenting the types of services provided, the effectiveness of counseling at reducing default, or other issues of interest to lenders and policymakers. The dearth of studies is particularly stark with respect to post-purchase programs. While homeowners are turning in increasing numbers to credit and housing counseling organizations for default and delinquency counseling and predatory lending assistance, little is known about how these services are delivered, the numbers of homeowners served, and whether the agencies that provide these services have sufficient resources and funding to meet the need.[23] There are many reasons for the lack of research on this industry. However, one of the main hurdles is funding. Given the reliance of HUD on this industry to assist low-income homeowners, HUD should fund more research, and encourage the private sector to fund and make data available for research .

V. The bill to establish the Office of Housing Counseling

HR 3938 would assist in coordinating the housing counseling functions at HUD. We particularly support the following aspects of the bill:

- Specific requirements for housing counselors to provide services to homeowners considering refinancing, and facing foreclosure.
- Support for increased funding for HUD certified housing counseling – although we believe the numbers should be doubled, at least.
- The requirement that only HUD certified housing counselors receive grants and provide services under the program.
- The requirements for studying defaults and foreclosures.

We do, however, have some suggestions to make to improve the bill, and ensure that its overall impact will be beneficial to homeowners. Some of these suggestions are:

[23] NCLC has proposed to do research in the form of a survey and report on the housing counseling and education industry. The report will be comprehensive assessment of the industry and document the types of services currently provided; the number of homeowners who received each type of service; the method of delivering the service; the amount of resources devoted to offering these services; an estimate of the need, if unmet; and, the problems and challenges faced in expanding the quality and quantity of these services. The report will also take a critical look at funding for the industry and provide recommendations.

- **Non-Profit Agencies Only.** Recipients of HUD counseling funds should be limited to non-profit agencies; and these agencies must be *bona fide* non-profit agencies, and for-profit agencies should not be permitted to receive HUD counseling funds (change needed on page 17, line 10, to remove the words "other entities.")

- **Advisory Committee should *Only* Provide Advice.** An Advisory Committee can certainly provide valuable information and assistance to the Secretary regarding the fundamentals of counseling, the subjects included in counseling, appropriate certification requirements, and other matters, it would be entirely inappropriate for a private body such as this to have *oversight* over these important matters. The function of the Advisory Committee should be limited to providing advice, and all mention of the ability of this Committee to control any aspect of the functioning of government sponsored housing counseling should be eliminated. (This necessitates changes to page 5, line 18 to remove the word "oversight," as well as other changes throughout the bill to ensure that the Committee's function is limited to an advisory one.)

- **Advisory Committee Should Be Equally Comprised of Representatives of Non-Profit Agencies, Homeowners, and Industry.** Even if limited to advice, the Advisory Committee will have significant impact on the counseling functions provided with HUD dollars. Representatives of non-profit counseling agencies and representatives of consumers/homeowners should be equally represented on the committee with the industry members. (This necessitates a change to page 5, lines 23 and 24.)

- **Mortgage Software Should Include Indices of Predatory Lending.** The idea of the mortgage software is an excellent one, which we fully support. The software must be comprehensive, however. One of the most salient aspects of predatory lending is the degree to which home equity is lost through refinancing and excessive payment of points and fees. This analysis must play a significant role in the advice provided through the new software. (This necessitates a change to page 14, after line 11, adding another criteria such as: "the degree to which home equity is depleted or fostered by the loan product.")

- **The Study on Defaults and Foreclosures Should Include Findings on Most Effective Programs To Avoid Foreclosures.** We have been very successful in working with housing counselors to facilitate foreclosure avoidance in our Massachusetts Foreclosure Prevention Project. Other programs exist throughout the United States which are similarly successful (such as the Pennsylvania HEMAP program). The study on foreclosures should also identify these positive ways for housing counselors to help avoid foreclosures. (This necessitates a change to page 20, line 21.) There should be competitive bidding to find the best organization to conduct this study.

- **The Mortgage Handbook Should Include Discussion of the Effect of High Points and Fees and the Effect of Refinancing on Savings and Home Equity.** The cost of paying high points and fees when obtaining a home mortgage is a confusing and much misunderstood aspect of the process. All educational materials developed by HUD to facilitate information must include discussion of the issues involved in evaluating whether points are actually beneficial to the homeowner, and how to evaluate the real requirement for and fairness of various mortgage fees. (Necessitating adding language to the list on page 23.)

- **The bill appears to dilute funding for housing counseling.** Section 3 of the bill refers to other counseling programs not currently included in HUD's budget for housing counseling under 12 U.S.C. § 1701x. Presently, we understand that housing counseling is funded at $37.5 million, exclusive of these other programs. If this is the case, then the proposed $45 million of funding will be spread over a broader number of programs, thus reducing funding for community-based housing counseling agencies. These agencies have been the backbone in HUD's efforts to reduce defaults and foreclosures.

VI. Recommendations and Conclusion

To improve the housing counseling and the education industry's effectiveness at helping low-income consumers we recommend:

- Federal law must provide additional protections to borrowers losing their home to foreclosure. The law should mandate that foreclosures cannot go forward without lenders and servicers being first required to offer counseling and to evaluate the use of loss mitigation options. Similar requirements are in place for FHA-insured loans. These requirement should be made applicable to all loans. Homeowners should be able to raise the claim that he lender improperly foreclosed when a loss mitigation plan was unreasonably rejected by the lender.

- Funding for housing counseling should be increased. HR 3938's call for $45 million to be appropriated for fiscal years 2004 to 2007 is inadequate. This does not represent a significant increase from current funding levels of $37.5 million. As discussed above, more non-profit and for-profit organizations are providing housing counseling services. With more providers, the small pool of funding dedicated to housing counseling is further depleted. Currently, most HUD-approved housing counseling agencies receive one quarter of their support from HUD. Without a significant increase in funding, these agencies may be forced to cut services. In addition, the $45 million called for by HR 3938 will fund a new agency and many new initiatives. The net result may be a *reduction* in the amount of funds directed towards HUD-approved agencies. Funding should be doubled to support this new agency and to provide adequate funding for the non-profit housing counseling agencies that provide direct assistance to consumers.

- More of that funding provided to housing counseling agencies should be allocated to default and delinquency services and programs designed to combat predatory lending. An effective housing counselor can prevent foreclosure by mediating between borrowers and servicers. With the widespread adoption of loss mitigation tools, housing counselors are effective and necessary intermediaries in the process. Federal policy should also encourage the private mortgage industry to provide more financial support to this industry.

- HOEPA and other federal laws should be strengthened to provide greater protection for consumers against predatory lending. As discussed above, limits on the points and fees, full assignee liability and changes in the tax code will go a long way to dissuade abusive loan practices. In addition, laws governing disclosures for second mortgages should be tightened to give consumers early and meaningful disclosures.

- More funding should be devoted to research into the industry. Research is essential to understand how the industry works and to identify effective practices. In addition, anecdotal evidence suggests that demand for services has increased for post-purchase services. Research needs to document this demand so federal policy can respond accordingly.

The housing counseling and education industry provides invaluable assistance to low-income and minority consumers. While many questions remain about funding and the efficacy of some of the services provided by the industry, it is undisputed that a strong industry has the potential to benefit all consumers.

Douglas M. Bibby response to a question from Hon. Nydia Velazquez March 18, 2004 Hearing on Successful Homeownership and Renting Through Housing Counseling

Question Do you believe the federal government needs to do more to help prevent foreclosures?

Response: NMHC and NAA are very supportive of the need for Congress to address the issue of foreclosure. Like you, we are concerned with the disturbing trends in the current market place that reflect high foreclosure rates, especially among individuals who participate in homeownership programs with low downpayment requirements. We are concerned that there is insufficient data on the potential impact of the "American Dream Downpayment Act" enacted last year to measure the success of a low downpayment programs on long–term homeownership. We are concerned that there is not enough data to justify the creation of the Administration's latest proposal for a zero-downpayment federally insured home mortgage for households that currently cannot qualify for FHA loans. And, finally, while H.R. 3755, the "Zero Downpayment Act of 2004" covers zero downpayment loans, other initiatives have suggested that similar programs be offered to those with blemished credit. Is this wise in light of the fact that FHA's foreclosure rate is at an all time high, notwithstanding that these foreclosures are coming from households that **qualified** for government-insured borrowers. One research report says total losses to all stakeholder conservatively average $73,300 per foreclosed FHA-insured loan and $26,600 for foreclosed conventional loans.

NMHC/NAA feel that the time has come to ask whether "homeownership above all else and at any cost" is wise public policy or sound financial policy. It is essential that proposed homeownership initiatives include strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership. No one is born a successful homeowner. To be a successful first-time homeowner, an individual should understand all the factors that go into purchasing and owning a home – especially all the financial considerations. Again, what we are talking about is the need for balance in our housing policy. We cannot hope to solve our many housing challenges across the country solely on the back of home ownership initiatives.

If America is serious about wanting to build more successful communities, Congress needs to balance the nation's housing policy to explicitly recognize the importance of apartments. NMHC/NAA urge policy makers to challenge their old ways of thinking and work together to craft new housing policies that ensure everyone has access to decent and affordable housing – regardless of whether they own or rent. That includes incorporating rental-specific counseling programs in the proposed Office of Housing Counseling.

CONSUMER MORTGAGE COALITION

April 8, 2004

Mr. Hugh Nathaniel Halpern
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

Re: Response to Rep. Velázquez's questions

Attn: Janice Zanardi

First, attached are a few minor corrections to the testimony that I gave before the House Committee on Financial Services Subcommittee on Housing and Community Opportunity hearing on the issue of housing counseling.

Second, the following are the responses to Rep. Velazquez's questions presented to the witnesses on Panel 3:

1. *Is it your experience that delinquent borrowers are often overwhelmed by their financial status and become reluctant to communicate with their lender as they get more behind in mortgage payments?*

Yes, one of the biggest difficulties that mortgage servicers face is persuading delinquent consumers to communicate with them about their situation right away and work out a resolution or plan to bring the loan current. If a consumer is reluctant to call, and becomes many months' delinquent, it is much harder to craft a solution that works for both the consumer and the holder of the loan note. Timely counseling (whether by the lender or a high-quality third-party counseling service) can be immensely helpful to consumers in this situation. Thus, we are also very supportive of the legislation's recognition of the importance of default counseling.

2. *What is the current system for mortgage lenders informing borrowers of the availability of housing counseling assistance?*

As noted in our testimony, Consumer Mortgage Coalition ("CMC") members have found that consumers often do not know where to go for counseling, and very importantly, the quality of counseling services varies dramatically. Whether there is a formal system to alert the borrower to the availability of counseling depends on the type of loan and the investor. Under the existing law that would be strengthened by H.R. 3938, certain first-time homebuyers who have low downpayment loans are legally entitled to counseling by

801 Pennsylvania Avenue, NW, Suite 625 Washington, DC 20004
PHONE: (202) 544-3550 FAX: (202) 543-1438

either the lender or a third party if they become delinquent because of unemployment or a reduction in their employment income. *See* 12 U.S.C. § 1701x. That legislation requires that eligible borrowers and applicants be notified of their right to receive counseling. Investors such as Fannie Mae require mortgage servicers to notify consumers of available counseling services when required by law or otherwise appropriate. Even when no formal statutory mandate or investor program applies, it is in the servicer's interest to provide information to the borrower at an early stage of the delinquency. As noted in our testimony, however, the CMC supports more systematic outreach efforts to inform borrowers of the availability of high-quality housing counseling assistance.

3. *Could you explain what services and assistance lenders provide when their borrowers become delinquent?*

Default almost always results in significant losses to the investor, servicer, and, where applicable, the mortgage insurer that has insured the lender against losses on the loan. Therefore, the servicer or mortgage insurer has a strong incentive to engage in "loss mitigation" activities that help the borrower to bring the loan into a current status. The servicer or mortgage insurer will typically assist the borrower in creating a detailed family budget and determining whether a payment plan can be worked out that will help the borrower avoid foreclosure. In many cases, the borrower will be offered some combination of a deferred payment plan, temporary reductions in the interest rate, or reductions in the repayment obligation that are sufficient to allow the borrower to avoid the delinquency. Where it is not possible to make the loan current, the borrower will be offered alternatives to foreclosure that are less costly to the borrower and do less damage to his or her credit rating.

4. *We have heard about some programs in which large counseling agencies have developed relationships with loan servicers in which they contact the housing counseling agency when one of their borrowers becomes delinquent. The housing counselor then contacts the delinquent borrower to offer assistance. I assume you are familiar with these programs, and was hoping you could tell why you think loan servicers are establishing these programs? What are the benefits of this type of relationship?*

Loan servicers have created these programs to help their borrowers, and also, of course, because they have a strong economic incentive to avoid borrower defaults and foreclosures. Borrowers who may be concerned, rightly or wrongly, about discussing their finances with the servicer benefit from being able to deal with an objective, informed source. Of course, third-party programs are only of benefit when they are of high quality, which is why the CMC strongly supports the requirement in H.R. 3938 that counselors be duly certified before participating in any HUD counseling program.

5. *Do you believe the federal government needs to do more to help prevent foreclosures?*

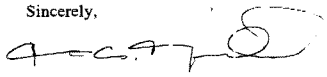
We believe that the improvements in housing counseling proposed in the legislation represent very appropriate additional steps that the federal government could take to give consumers the tools they need to avoid foreclosures.

6. *As you are aware, the Community Reinvestment Act (CRA) is a primary source of investment in underserved communities. The housing counseling organizations on the 2nd panel spoke about the need for capacity building within their organizations. Banks could play a role in meeting this need by providing resources to counseling agencies. Do financial institutions receive CRA credit if they provide assistance to housing counseling organizations? If not, do you believe CRA should be amended to allow such activities?*

Financial institutions do receive CRA credit for providing housing counseling services, which are viewed as a form of "community development services" under the "service test" of the inter-agency CRA regulations. *See, e.g.*, Federal Reserve Board Regulation B, 12 C.F.R. §§ 228.12(j) and 228.24(e); *see* Federal Financial Institutions Examination Council, *Interagency Questions and Answers Regarding Community Reinvestment* (*"Interagency Q&A"*) §§ __.12(j) and 563e.12(i)-3, 66 Fed. Reg. 33620, 33627-28 (July 12, 2001) (specifically mentioning "home-buyer and home-maintenance counseling" as an example of "community development services"). In addition, a lender that contracts with a community organization to provide housing counseling to low- and moderate-income persons as part of the lender's mortgage program may qualify for CRA credit under the service test, while a lender that makes charitable donations to such an organization may receive credit under the investment test. *Interagency Q&A* §__.24(e), 66 Fed. Reg. at 36636. The CMC strongly supports these provisions, in which the banking regulators have recognized that housing counseling plays a vital role in helping to make housing available to low- and moderate-income communities. While the CMC would support changes that provide additional flexibility to institutions in meeting their CRA obligation through outreach and educational activities, we believe that the banking agencies have sufficient authority under existing law to make these changes by regulation.

Finally, we greatly appreciated having the opportunity to testify before the Committee on this important legislative initiative. If we can provide the Committee any assistance on this issue, please let us know and we would be pleased to do so.

Sincerely,



Anne C. Canfield
Executive Director

Enclosure

Subcommittee on Housing and Community Opportunity
"Successful Homeownership and Renting through Housing Counseling"

Questions for the Record for Panel III – Congresswoman Nydia M. Velazquez

1. **Is it your experience that delinquent borrowers are often overwhelmed by their financial status and become reluctant to communicate with their lenders as they get more behind in mortgage payments?**

   Servicers believe that fear, embarrassment, and lack of knowledge about the options available to them are the most common reasons for the lack of consumer contact. Based on anecdotal evidence, we estimate that between 40-50 percent of borrowers *referred to foreclosure* have not responded to servicers' many prior outreach efforts and between 20-30 percent of borrowers go to *foreclosure* without responding to servicers' outreach. Between 10-20% of borrowers respond to loss mitigation solicitation packages and 10-20% of borrowers respond to referral to foreclosure letters.

   It is clear that the notice of referral to foreclosure from the attorney triggers action from consumers. As a result, MBA successfully lobbied FHA several years ago to change its position to permit servicers to send out-bound solicitations for loss mitigation after the initiation of foreclosure. In the past, such out-bound solicitations were not permitted because it was believed to send the borrower mixed messages. Today, lenders contact borrowers after initiation of foreclosure to continue to seek workouts.

2. **What is the current system for mortgage lenders informing borrowers of the availability of housing counseling assistance?**

   The Housing and Urban Development Act of 1968 requires that mortgage lenders notify the homeowner of the availability of homeownership counseling provided by nonprofit organizations approved by HUD by the 45th day of delinquency. To accommodate this requirement, HUD created a pamphlet, entitled "How To Avoid Foreclosure." The HUD pamphlet includes information on housing counseling and how to contact housing counselors in the borrower's geographic area. The housing counseling notice must be distributed to all delinquent borrowers, not just FHA borrowers.

3. **Could you explain what services and assistance lenders provide when their borrowers become delinquent?**

   Servicers make numerous attempts to contact the borrower to provide forbearance and loss mitigation assistance, and to communicate important developments with regard to the status of the mortgage (legal notices as to

breach and foreclosure). Below is an outline of the types of notices and calls servicers make to delinquent borrowers:

- **Courtesy Calls –** Lenders proactively contact some customers who are considered at risk for problems prior to the expiration of the grace period (after the due date but prior to incurring a late fee) as a reminder that payment is due. Calls prior to the late payment are selectively made in order to avoid infringing on consumers' privacy.

- **Late payment notices -** Notices are sent to the borrowers who are late on their mortgage payment. The letter indicates the amount of the late charge and prompts the borrower to call the servicer to discuss cure options. These are combined with the monthly statement if statements are provided or as a separate mailing if coupon books are used. These are reoccurring notices.

- **Collection/Loss Mitigation Calls -** Dedicated staff call borrowers when payments are late in an attempt to cure the defaults. If the loan is not seriously delinquent, the servicer will seek promises to pay, repayment plans, short forbearances, and moratoriums. Early resolution technology is used as well. When the servicer makes contact with the borrower, it will take his or her financial information to determine reasonable plans and determine the customer's intentions to keep or to give up the property. If appropriate, the lender will also pre-qualify customers for more complex workouts (most complex workout options do not become available until the 60th or 90th day of delinquency). Due to poor repeat contact rates, servicers try to get as much financial information as possible if they reach a live person on these calls. If the delinquency is less than 60 days, a borrower may also qualify for a delinquency refinancing.

- If a loan is seriously delinquent, the servicer will evaluate the borrower for a special or formal forbearance, modification, deed-in-lieu of foreclosure, or pre-foreclosure sale. FHA borrowers are also eligible for partial claims (these are defined below).

- **Counseling Notice.** A counseling letter is sent to all borrowers who are 45 days delinquent. Mailing includes the HUD "How To Avoid Foreclosure" pamphlet (which includes the housing counseling notice) and usually includes a financial statement form and letter from the lender urging the borrower to contact them and return the form.

- **Workout Package Mailings:**

  A workout package is sent to all conventional borrowers around the 60th day of delinquency.

A workout package is sent to all government borrowers around the 90th day of delinquency (HUD loss mitigation efforts are not permissible until the loan is 90 days delinquent).

- **Breach or Demand Letter**—A breach or demand letter indicates the amount and conditions for reinstatement and the consequences of failure to reinstate. The letter also includes verbiage required by various state regulations as a pre-condition to foreclosure action. Loss mitigation contact information is provided.

- **Acceleration letter -** An acceleration letter indicating that the debt has been accelerated (a legal precondition to foreclosure). Loss mitigation contact information is provided.

- **Foreclosure notice -** The foreclosure notice notifies the borrower that the loan has been referred to foreclosure.

- **Foreclosure Sale -** Notices required by each respective state to foreclose on a property are sent.

Servicers employ a number of loss mitigation options that are designed to allow the borrower to cure the delinquency and remain in the home or dispose of the home with reduced financial consequences. Below is a list of loss mitigation options servicers employ:

1. ***Forbearance Plan -*** This is a formal agreement to allow a reduced or suspended payment for a specific period of time, usually not to exceed three months of payments.
2. ***Special Forbearance Plan -*** This is a formal written agreement to bring the account current over a period of time, usually not to exceed 12 months.
3. ***Delinquency Refinance -*** Borrowers may be eligible to refinance the arrearage into the balance of a new loan, thus bringing the loan current.
4. ***Modification -*** This may include reducing the interest rate, extending the term of the loan, or adding the delinquent interest amount to the unpaid principal balance.
5. ***Partial Claim/Claim Advance -*** If the mortgage is insured by FHA, the mortgagor may qualify for an interest-free loan from HUD in order to bring the account current.
6. ***Pre-foreclosure Sale -*** If the payoff amount on a loan is greater than the fair market value of the property, the mortgagor may qualify to sell his/her home for less than what is owed.

7. ***Assumption -*** A qualified buyer may be allowed to assume a mortgage, even if the mortgage states that it is nonassumable.
8. ***Deed In Lieu of Foreclosure -*** If a property has been listed for sale for a period of time with no activity, the investor or insurer may accept title to the property as settlement for the debt.

Options a servicer can extend to a borrower are investor- or insurer-driven. In most cases the servicer must conform to the eligibility standards established by the insurer or investor/guarantor. Some loans are not eligible for certain loss mitigation options due to the mortgage backed security agreement. For example, some housing finance agencies are unable to buy loans out of MBS pools in order to effectuate a modification. When contact is made with a delinquent borrower, servicers work with that borrower to obtain the necessary financial information that will allow it to underwrite the borrower for the various loss mitigation tools. The servicer also assists borrowers with their budget and recommends ways to reduce expenses that ensure successful cure of the delinquency Servicers also provide information to housing counselors as needed. Technology allows the servicer to evaluate the situation, make a determination and respond back to the consumer quickly.

4. We have heard about some programs in which large counseling agencies have developed relationship with loan servicers in which they contact the housing counseling agency when one of their borrowers becomes delinquent. The housing counselor then contacts the delinquent borrower to offer assistance. I assume you are familiar with these programs, and was hoping you could tell me why you think loan servicers are establishing these programs? What are the benefits of this type of relationship?

Servicers build relationships with housing counselors to assist borrowers to become current. Servicers do not want to foreclose on properties because it represents a loss of a valued customer relationship and results in losses for the servicer. The losses to servicers are a result of unreimbursed expenses, the write-off of the value of the servicing asset, and the staffing and technology costs.

Knowledge, skill, resources, and technological sophistication vary between housing counselors and thus it is hard to generalize the benefits and drawbacks. However, we are aware that some of our members partner with a specific housing counseling agency, CCCS, because the housing counselors have been granted delegated authority to write down credit card debt. Very few housing counselors have this authority as it must be negotiated with each credit provider. In this case, the housing counselor offers significant value because the borrower's financial profile can be substantial improved by adjusting the borrowers unsecured obligations—

making a loss mitigation option more viable.

Some drawbacks associated with housing counseling services include the lack of understanding of the limitations of various loss mitigation tools; the lack of technology; and lack of resources. With regard to the lack of understanding of loss mitigation requirements, several members have indicated that some housing counselors present loss mitigation plans that do not conform to HUD or investor guidelines and, therefore, cannot be executed without placing the servicer at risk of significant penalties. Several servicers have also indicated that housing counselors generally lack technology that would allow them to properly evaluate various loss mitigation options and to manage their workload and the various deadlines imposed on servicers. Finally, one mega servicer indicated that they have been unable to find housing counselors that can handle their volume.

5. **Do you believe the federal government needs to do more to help prevent foreclosures?**

   MBA does not see how the federal government can fix the root problems that cause default. The primary reason borrowers default is due to job loss. The second largest reason for borrower defaults is the overextension of credit. The remaining reasons are divorce, illness and death (which when combined represent less than 10 percent). There is little the federal government can do to assist borrowers in these cases. Congress, however, could provide additional funding for housing counseling to assist them with staffing, training and technology needs.

6. **As you are aware, the Community Reinvestment Act (CRA) is a primary source of investment in underserved communities. The housing counseling organizations on the 2nd panel spoke about the need for capacity building within their organizations. Banks could play a role in meeting this need by providing resources to counseling agencies. Do financial institutions receive CRA credit if they provide assistance to housing counseling organizations? If not, do you believe that CRA should be amended to allow such activities?**

   MBA is not well versed in the Community Reinvestment Act. While some of our members are bank- or thrift-owned, the parent companies generally manage the CRA responsibility for the corporate family. As a result, we cannot comment on whether CRA grants credit to banks for providing resources to housing counselors.

   We would, however, like to comment on your question as to whether banks should play a role in providing resources to counseling agencies. Mortgage companies, whether bank-owned or independent, are generally best qualified to evaluate whether borrowers qualify for loss mitigation options because they

have the borrower's records, know the "underwriting" rules, and have the authority to execute the transactions. It is very difficult to get a third party involved in the "underwriting" process because they generally do not have complete information and ultimately the servicer is accountable to the investor for loss mitigation decisions.

However, housing counselors can assist lenders by providing services that complement the servicer's activities (such as negotiating write downs of unsecured debt) or that reach unresponsive borrowers (with appropriate hand-off to the lender). Unfortunately, capacity, technology and current housing counseling business models are not geared to these roles.

Subcommittee on Housing and Community Opportunity
"Successful Homeownership and Renting through Housing Counseling"
Thursday, March 18, 2004, 10AM

Questions for the record for Panel III – Congresswoman Nydia M. Velazquez

Submitted by Odette Williamson, National Consumer Law Center

Question: Is it your experience that delinquent borrowers are often overwhelmed by their financial status and become reluctant to communicate with their lender as they get more behind in mortgage payments?

Answer: Yes. Some homeowners who have defaulted on their mortgage may be reluctant to communicate directly with their lender or servicer. Properly trained housing counselors can act as effective intermediaries between reluctant homeowners and lenders. Homeowners are often more comfortable discussing their financial situation with neutral third parties, such as housing or credit counselors, who can assist them by developing a plan to deal with mortgage and non-mortgage related debt.

Question: What is the current system for mortgage lenders informing borrowers of the availability of housing counseling assistance?

Answer: As outlined in 12 U.S.C. § 1701x(5), all lenders are required to inform delinquent borrowers of the availability of housing counseling assistance provided by HUD-approved nonprofit organizations, or provide HUD's toll-free telephone number which will assist borrowers with locating such organizations. Anecdotal evidence suggests that compliance with this requirement is uneven; some lenders are not even aware that HUD operates a toll-free telephone number.

Moreover, many HUD-approved agencies do not provide the type of assistance that consumers need to save their homes from foreclosure. The demand for default and delinquency counseling has increased as foreclosure rates have reached record levels. We believe that fewer than half of existing counseling organizations provide this specialized service or can meet the need in their communities. Of those that provide this service, they may do so on an occasional basis or may lack the staff specifically dedicated to providing this type of counseling.

Question: We have heard about some programs in which large counseling agencies have developed relationships with loan servicers in which they contact the housing counseling agency when one of their borrows becomes delinquent. The housing counselor then contacts the delinquent borrower to offer assistance. I assume you are familiar with these programs, and was hoping you could tell us why you think loan servicers are establishing these programs? What are the benefits of this type of relationship?

Collaborations between servicers and housing counseling organizations may provide needed assistance to delinquent borrowers. A homeowner in default may be

reluctant or too intimidated to speak with a servicer or lender. By working with housing counseling organizations, servicers may be able to assist more borrowers.

Lenders, servicers and others in the mortgage industry, however, need to fund the work of these counseling organizations. Effective default and delinquency counseling is time intensive and expensive. To provide effective assistance, counselors must meet with homeowners face-to-face, review relevant paperwork, discuss their budgets thoroughly, help them apply for public assistance, and provide other services to increase their income or decrease expenses. Then the counselor will work with the homeowner and the lender or servicer to craft an appropriate workout. Servicers typically work successfully with borrowers who are only a few payments in arrears. Most of the borrowers that are referred to counseling organizations are referred after months of default. Thus, counselors will deal with the most difficult and time intensive cases. Adequate funding is necessary to ensure that agencies have the capacity to assist the borrowers referred to them.

Question: Do you believe the federal government needs to do more to help prevent foreclosures?

The federal government could and should do more to assist homeowners facing foreclosure. The National Consumer Law Center has made the following recommendations.

- Federal law must provide additional protections to borrowers losing their homes to foreclosure. The law should mandate that foreclosures cannot go forward without lenders and servicers being first required to offer counseling and to evaluate the use of loss mitigation options. Similar requirements are in place for FHA-insured loans. These requirement should be made applicable to all loans. Homeowners should be able to raise the claim that the lender improperly foreclosed when a loss mitigation plan was unreasonably rejected by the lender.

- Funding for housing counseling should be increased. More non-profit and for-profit organizations are providing housing counseling services. With more providers, the small pool of funding dedicated to housing counseling is further depleted. Currently, most HUD-approved housing counseling agencies receive one quarter of their support from HUD. Without a significant increase in funding, these agencies may be forced to cut services.

- More of the funding provided to housing counseling agencies should be allocated to default and delinquency services and programs designed to combat predatory lending. With the widespread adoption of loss mitigation tools, housing counselors are effective and necessary intermediaries in the process. Federal policy should also encourage the private mortgage industry to provide more financial support to this industry.

- HOEPA and other federal laws should be strengthened to provide greater protection for consumers against predatory lending.

March 16, 2004

The Honorable Bob Ney
Chair, Subcommittee on Housing
and Community Opportunity
B-303 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Ney:

It is our understanding that you will soon be convening a Subcommittee hearing on "Successful Homeownership and Renting through Housing Counseling." AARP offers a wide range of consumer education activities in a variety of areas, but does not provide direct to homeowner or renter counseling services. However, the AARP Foundation has been actively involved in an effort called the "Reverse Mortgage Education Project (RMEP)," which has a counseling component.

Working with the U.S. Department of Housing and Urban Development (HUD) and a reverse mortgage industry advisory committee, our RMEP team is implementing strategies to improve the quality, availability, efficiency and accountability of Federal Housing Administration (FHA) insured reverse mortgage counseling (officially designated as the Home Equity Conversion Mortgage, or HECM program). Within the past year, the Project has become a HUD national intermediary for managing HECM counseling.

While our RMEP team is not a general housing counseling service provider, the Project has acquired many insights into what its takes to develop a quality reverse mortgage counseling program for homeowners aged 62 and over. We believe that some of these insights may prove beneficial to the deliberations of the Subcommittee as it considers its options for improving housing counseling

We would like to submit for the hearing record and make available to the Members of the Subcommittee the attached summary of RMEP activities, goals, and measures of client

satisfaction. We hope the information will be of value to you in your discussions of housing counseling. Please free to contact me, or have your staff call Roy Green of my staff at (202) 434-3800, if you have any questions.

Sincerely,

David Certner
Director
Federal Affairs Department

Providing Quality Reverse Mortgage Counseling for Homeowners Aged 62 and Over

Home Equity Conversion Mortgages (HECMs)

Reverse mortgages let homeowners aged 62 and over convert the equity in their homes into cash - without having to sell their homes, or make monthly loan repayments. At least 90% of all reverse mortgages closed in the United States are insured by HUD's Home Equity Conversion Mortgage (HECM) insurance program. Since its inception as a small scale demonstration in 1989, the HECM program has insured over 100,000 HECM loans.

Although they are generally less costly than other reverse mortgages, HECMs can be expensive and difficult to understand - and less costly alternatives may be available to older homeowners. Most prospective borrowers have never seen such a mortgage before, and many have no experience with any type of home loan.

Mandatory Independent Counseling

To safeguard consumers, Congress required in legislation authorizing the HECM program that homeowners must receive independent counseling as a condition for eligibility. It also specified that this counseling must cover HECM costs, alternatives to HECMs, the financial implications of HECMs, and a disclosure that HECMs may affect a borrower's estate and receipt of other benefits. Since then, Congress has added a requirement that HECM counselors must safeguard their clients against third parties that charge fees contingent on a HECM closing for information or services that may be available at nominal or no cost from other sources.

HECM counseling is provided by HUD-approved housing counseling agencies. But HECMs are structurally complex and have unique financial implications for consumers. In addition, HECM counselors need to know about less costly alternatives to HECMs that may be available to older homeowners. They also need to understand a specialized Total Annual Loan Cost (TALC) disclosure for reverse mortgages that is required by federal Truth-in-Lending law. In short, quality HECM counseling requires a substantial body of technical knowledge that generally does not apply to other types of housing counseling.

Prior to 2000, however, there was no HECM-specific testing of individual HECM counselors, and each local counseling agency was responsible for developing its own HECM-specific consumer information materials. There was no generally available software for analyzing HECMs and comparing them with other reverse mortgages. Local agencies did not receive dedicated HUD funding for HECM counseling, so they had no incentive to offer this specialized counseling service. Finally, there was no mechanism for evaluating the quality and impact of HECM counseling.

Improving HECM Counseling

In 2000, Congress directed HUD to improve HECM counseling, and empowered HUD to fund the development of new tools and technologies to achieve this goal. Over the past four years, the AARP Foundation's Reverse Mortgage Education Project (RMEP) has been working with HUD and a HECM industry advisory committee to improve the quality, availability, efficiency, and accountability of HECM counseling. Within the past year, the Project has become a HUD national intermediary for managing HECM counseling.

1) To improve HECM counseling quality, the Project administers a national HECM counselor **exam**, and directs funding to local HUD-approved housing counseling agencies that employ counselors who score well on the exam. The counseling must follow a set of detailed, HECM-specific policies and procedures known as the Project's **counseling protocol**. This 23-page document covers a broad array of issues that are unique to HECM counseling. A copy of the protocol can be found on the internet at www.hecmresources.org by clicking on Reverse Mortgage Education Project and then Counseling Protocol.

The Project's counselors also must use **model loan software** for analyzing and comparing reverse mortgages that meets a set of specifications jointly developed by consumer and industry interests. The Project actively supports its network of HECM counselors through in-person and online **training**, **technical assistance**, and **mentoring**, regularly-scheduled **conference calls**, specialized online **briefings**, complete HECM program **resources**, a state-by-state **alternatives database**, and ad hoc **problem-solving** by phone and email.

2) To improve HECM counseling availability, the Project provides **dedicated, per capita funding** – so the more HECM counseling its counselors provide, the more their employing agencies earn. To expand the reach of its counseling team, the Project coordinates a **national telephone counseling program**. It also operates a **national counseling referral system** that links consumers to its counseling Network. A **scripted online screening/intake** application makes it possible for local Project counselors with appointment waiting lists to offer their clients **more timely service** by telephone via other Project counselors.

3) To improve HECM counseling efficiency, the Project provides generic consumer information through AARP's **46-page reverse mortgage consumer guide** and **consumer website** at **www.aarp.org/revmort**. These materials can obviate the need for counseling or enable clients to make more effective use of a counselor's time. The Project's technologies for client screening, data intake, client referrals, case tracking and reporting, and agency invoicing and reimbursement are all **integrated into a single online system**. The Project's scripted online screening/intake application standardizes and streamlines the screening process and automates client data entry from remote locations into the Project's database.

4) To improve HECM counseling accountability, the Project requires its network counselors to submit **specified client data** in order to receive payment for their

agencies. It also sends a **client satisfaction survey** to all clients counseled through the Project. Via cross-tabulations of these data sources, the Project can evaluate counseling performance, including individual counselor performance. The Project's HECM counseling protocol requires counselors to follow its HECM-specific policies with respect to avoiding **conflicts of interest**, safeguarding **client confidentiality**, and providing **product comparisons**. The protocol also provides a process though which consumers, lenders, and counselors can help the Project improve the protocol document and the Project's **performance in implementing** it.

Quality and Capacity

The Reverse Mortgage Education Project's counseling client survey has found consistently high levels of satisfaction with all Project services (see page 4). In addition, about four out of five respondents (79%) have reported that the Project's information and counseling services were helpful to them in making a decision. While only 21% said they considered themselves to be well-informed about reverse mortgages before contacting the Project, 96% said they were well-informed after being counseled by a Project counselor.

Beginning with an initial pilot test group of six HECM counselors, the Project's network has grown to include 27 counselors in 2002, 45 in 2003, and is expected to include from 90 to 100 total counselors in 2004. This network completed 1,026 HECM counseling cases in FY 2001, 2,056 cases in FY 2002, 3,411 cases in FY 2003, and has enough funding to complete about 8,458 cases in FY 2004.

Not all of these counselors work full-time on HECM counseling. On average at present, they can complete about 300 HECM counseling cases per counselor per year. So a network of 90 to 100 counselors could be expected to complete from about 27,000 to 30,000 HECM cases per year. Last year, about 27,000 HECM loans were closed according to Fannie Mae, which is the only investor in these loans. The Project's survey indicates that about 80% of its counseling clients who have made a decision when surveyed have decided to apply for a HECM loan.

In 2003, the Project distributed about 75,000 copies of its consumer guide, and handled 10,500 consumer inquiries. Its thirty consumer web pages at www.aarp.org/revmort were viewed over a million times.

Summary

Reverse mortgage counseling is required by federal statute for federally-insured Home Equity Conversion Mortgages (HECMs). Quality HECM counseling requires a substantial body of technical knowledge that generally does not apply to other types of housing counseling. With significant help from HUD and a HECM industry advisory committee, the AARP Foundation has developed a HECM-specific counseling management system geared to improving the quality, availability, efficiency, and accountability of HECM counseling services. The quality of the services delivered by this system has remained high while its capacity has grown.

Counseling Client Satisfaction Survey
Reverse Mortgage Education Project
AARP Foundation

		N	Per Cent Favorable (on a scale of 5)		
			Rated 4	Rated 5	Total
1) Consumer Website					
Helpful & easy to understand	2001-03	373	26%	65%	**91%**
A good resource	2001-03	367	25%	65%	**90%**
2) Consumer Guide					
Helpful & easy to understand	2001-03	1,006	24%	68%	**92%**
A good resource	2001-03	931	21%	70%	**91%**
3) Counseling Appointment					
Easy to obtain	2002-03	556	16%	83%	**99%**
Met timing/ scheduling needs	2002-03	517	15%	81%	**96%**
4) Network Counselors					
Helpful & easy to understand	2001-03	1,045	9%	88%	**97%**
A good resource	2001-03	985	11%	86%	**97%**
5) Overall Experience					
	2001-03	1,433	30%	64%	**94%**

		N	Percent
6) Discussion of Alternatives			
Per cent recalling specific options	2001-03	926	62%
7) Aid to Decision-Making			
Per cent saying information helped decision-making	2001-03	1,159	79%

8) Percent Well-Informed: Before & After			
N = 562 2002-3	**Before Contacting AARP**	**Before Counseling**	**After Counseling**
	21%	**33%**	**96%**

Statement Submitted to the House Subcommittee
on Housing and Community Opportunity
March 18, 2004

By
The American Financial Services Association
And
The American Financial Services Association Education Foundation

Introduction

We would like to take the opportunity to thank Chairman Ney for holding this hearing on housing counseling. Many of AFSA's member companies provide counseling and assistance to the consumer. The American Financial Services Association (AFSA) is the leading trade association representing market funded financial services companies. Founded in 1916, AFSA's 400 member companies include auto finance/leasing lenders, mortgage and equity lenders, credit card issuers, sales finance companies, direct small loan lenders and industry suppliers. Most of AFSA's companies provide credit to both consumers and small businesses.

The American Financial Services Association Education Foundation (AFSAEF) was founded to promote financial literacy in 1990. The AFSAEF has produced substantive material to educate consumers, and has partnered with a number of Federal Government Agencies and AFSA members to develop and distribute materials beneficial to the consumer. The AFSAEF uses extensive resources to provide specific financial literacy information that will benefit consumers. Many of the AFSAEF initiatives exist to prevent problems.

American Financial Services Association Education Foundation

One example of the education provided by AFSAEF is a brochure on mortgage lending. This brochure, entitled "Mortgage Loans: Understand the Terms of Your Loan Before You Sign," is designed to assist a consumer in understanding the terms of a mortgage loan, determining the best terms, and identifying issues to be aware of before entering into a mortgage loan transaction. This brochure is available in English, Spanish and Haitian-Creole and free of charge to any consumer requesting the information. It has been used in many states by state and local housing programs. It can be downloaded from the AFSAEF website, at www.afsaef.org. AFSAEF, in collaboration with the American Association of Residential Mortgage Regulators and the National Association of Consumer Credit Administrators, created and distributes this brochure.

Specific aspects of responsible money management are communicated to the general public through news releases, newspaper articles, television and radio public service announcements, principally offering brochures detailing what to do or not do in formulating financial decisions. Fraud alerts, scam warnings and more affirmative guides to decision making are offered regularly. Knowledge and accountability for decisions need to be ingrained at the individual level. AFSAEF is currently using multimedia resources to inform consumers about making the right choices when considering a mortgage loan, and in the case of serious financial difficulties, the importance of seeking out alternatives and considerations to restructure personal debt to avoid personal bankruptcy.

Personal Finance Education

AFSAEF develops and distributes personal finance educational materials that provide tips on the responsible use of consumer credit and the management of personal finances. One copy is provided free to individuals upon request. Approximately one million individual consumers have received this material. (See Appendix A for the list of all AFSAEF brochures).

AFSAEF has developed MoneySKILL, a comprehensive curriculum devoid of commercial content to teach personal finance. The goal of MoneySKILL is to create an effective and attractive financial learning tool made available at no cost. This curriculum is available online and can be accessed over the Internet. For additional information one can email susieirvine@moneyskill.org.

AFSAEF also provides in person seminars for consumers on personal finance. In the District of Columbia, in cooperation with the DC Public Housing Authority, AFSAEF conducted workshops on budgeting, managing credit use and debt problems, using and maintaining a checking account, reading and understanding credit reports, and alternative sources of financing. Similar programs have been provided in New Mexico and Arizona with support of the Navajo Social Services. These prototype programs will be modified for facilitator presentations that can substantially multiply information delivery outreach to community organizations.

Partnerships are cultivated by AFSAEF with AFSA member institutions, government agencies and other non-profit organizations on personal finance issues to educate and benefit specific segments of the marketplace. Some of the partnerships include the Consumer Literacy Consortium and the National Consumer Protection Week.

We appreciate this opportunity to provide the Committee information and comments on our efforts with financial literacy.

APPENDIX A

AFSAEF's Brochures on Personal Finance

Mortgages
"Mortgage Loans- Understand the terms of Your Loan Before You Sign"
A brochure designed to assist a consumer in identifying the terms of a mortgage loan, determining the best terms and identifying issues to be aware of before entering into a mortgage loan transaction. This brochure is available in English, Spanish and Haitian-Creole.

"Guidelines for Home Improvement Loans- A Homeowners Toolbox"
A brochure designed to educate consumers on home improvement lending.

Vehicle Financing
"Understanding Vehicle Financing"
A booklet to help explain dealership financing and can serve as a guide for evaluating a consumer's financial situation before a new or used vehicle is financed. This booklet is available in Spanish and English.

Money Management
"The Consumer Almanac"
The fifth edition of the Consumer's Almanac helps people to organize their daily lives and manage their money. It is a useful booklet no matter what your financial situation may be.

"Bankruptcy: Facts and Consequences"
A brochure explaining the use and consequences of the option of bankruptcy.

"Consumer Budget Planner"
Helps a consumer to list the savings, expenses and income on a monthly basis.

"Manage Your Holiday Spending"
A brochure offering valuable tips for consumer on planning for the holiday season.

"When Natural Disaster Strikes- A Guide to Managing Your Financial Obligations During a Natural Disaster"
This brochure is often requested following a natural disaster. AFSAEF works with its member companies to provide this brochure free of charge in states where a disaster has occurred.

Capitol Hill Advocates, Inc.

3104 Worthington Circle
Falls Church, VA 22044
Phone: (703) 534-9513
Fax: (703) 534-7760
CHA_RP@Hotmail.com

TESTIMONY OF

RANDALL G. PENCE, ESQ.
PRESIDENT
CAPITOL HILL ADVOCATES, INC.

ON BEHALF OF

The American Society of Home Inspectors, Inc.

BEFORE

THE SUBCOMMITTEE ON HOUSING
UNITES STATES HOUSE OF REPRESENTATIVES

REGARDING

The Expanding Housing Opportunities Through Education and Counseling Act

MARCH 18, 2004

Mr. Chairman, on behalf of the more than 6,000 members of the American Society of Home Inspectors (ASHI) across the country, I would like to take this opportunity to thank you and congratulate you for your leadership in introducing HR3938, the Expanding Housing Opportunities Through Education and Counseling Act. This legislation is sorely needed. It will go far in filling a critical void in the knowledge base of Americans who purchase homes by the hundreds and thousands every day, and in doing so, commit themselves to the single greatest debt burden they will ever bear. And that burden, and risk, is shared by all citizens in the guise of FHA loan guarantee programs.

Buying, owning, and enjoying a home is a goal of nearly every head of household in the U.S., a cornerstone of the fabled American dream, a linchpin to financial security, a core ingredient of social and neighborhood stability.

And yet the stakes are high. The process of buying a home is cumbersome, complicated, and fraught with potential pitfalls for the unwary.

It is only a matter of historical artifact that today, a person who has never bought a home before may do so, commit to thirty years' worth of debt, obtain only the most shallow understanding of the home in question or the conditions under which he takes, and utilize government loan programs in the process – all without necessarily obtaining any unbiased counseling whatsoever.

If the process of buying a home were invented today, it would be unthinkable to propose, or even allow, such a casual process as we know now.

ASHI believes that the lack of knowledge and understanding by homebuyers about a range of homebuying issues, including the technical condition of homes used to secure mortgage loans, contributes measurably to what Congress recognizes as unacceptably high rate of defaults in FHA programs. The results of the SEC. 6. STUDY OF DEFAULTS AND FORECLOSURES will likely cite the general lack of knowledge and understanding by homebuyers as a significant factor in FHA default rates. We believe that notion will be further affirmed soon by an authoritative and unbiased third party report previously commissioned by your Subcommittee. That being the case, HR3938 is the appropriate policy remedy to attack a knowledge base problem that can be addressed in a relatively efficient, unobtrusive and cost-effective manner.

The need for HR3938 will soon become even more pronounced with the advent of President Bush's Zero down Payment Initiative and HR3755, introduced by Cong. Tiberi. Both efforts seek to provide FHA loan access to individuals who can tolerate the least margin for error in homebuying.

ASHI applauds and supports efforts to make homeownership available to the widest possible economic cross-section of individuals as possible. ASHI will support both the Zero down Payment Initiative and HR3755. But FHA programs are already accessible to the vast majority of people who have at least minimal financial reserves to make down payments and subsequent monthly payments. It is reasonable to assume that the socio-economic groups remaining to be reached by the new initiatives are comprised of individuals who have virtually no significant reserves, and are the most vulnerable of potential homebuyers to mistake.

It is further reasonable to assume that such individuals are the least able to absorb the consequences of purchasing mistakes borne of lack of knowledge or understanding about homes they buy or the conditions under which they take. For these individuals, imagine the moment of the post-closing discovery by a homebuyer that a roof will need to be

replaced much sooner than expected, or a HVAC unit is failing, or a hidden structural defect will require immediate and expensive repair. For all homebuyers, this would be a rude shock, but in most cases financially survivable. However, for homebuyers who have extremely thin or nonexistent reserves to begin with, those whom would be directly served by the new initiatives, the consequences could be catastrophic.

When a FHA loan program allows an individual at the thinnest economic margins to buy a home, it is a legitimate victory of U.S. policies that unabashedly promote homeownership. ASHI shares in the zeal to bring homeownership to as many people as possible. However, if that same homebuyer subsequently descends into default or bankruptcy, due in part to an otherwise correctable lack of knowledge about the house or a misunderstanding of the foreseeable burdens, then that initial victory is a false victory, a pyrrhic one at best. At worst, it can be a financial failure worse than not buying at all.

So in a sense, by adopting ever more forgiving LTV ratios for FHA loans, specifically to serve homebuyers who have minimal reserves to mitigate mistakes, the federal government creates something of a correlative obligation to counsel and educate such homebuyers to minimize the risk of mistake -- and the unpropitious results that might ensue.

HR3938 would address that growing obligation, to the benefit of cash-strapped first-time homebuyers as well as other vulnerable populations cited in the bill.

ASHI strongly supports the language in Section 8 of the bill that prescribes certain content issues that must be addressed, at a minimum, in the mortgage information booklet. ASHI is especially supportive of the provision in *(12) An explanation of the nature and purpose of real estate appraisals, including the difference between appraisals and home inspections.* The confusion between appraisals and home inspections among homebuyers is a notorious problem for them as well as the appraisal and home inspection professions.

There is growing recognition in HUD as well of the scope of this problem and the need to address this confusion. In fact, HUD recently modified one of its key homebuyer documents, titled "For Your Protection – Get a Home Inspection" to more clearly make this distinction with a crisper, cleaner, more effective message. It also requires homebuyers to affirmatively make the voluntary choice to obtain or not obtain a home inspection. ASHI feels that the document is much improved to the benefit of all concerned, a much more understandable message, both in content and format. We congratulate HUD for its good changes and responsiveness to industry requests to revise this key document.

The revised HUD communication provides two key messages from ASHI's perspective, and both are relevant for consideration in Section 8 (12) of the bill. First, the HUD document clarifies that homebuyers should be cognizant that there is a material distinction

between appraisals and home inspections. Sec. 8 (12) in HR3938 contains this concept as well.

Second, the revised HUD document also delivers the message "For Your Protection – Get a Home Inspection". HUD's message affirmatively and unambiguously encourages homebuyers to obtain a home inspection. The homebuyer's decision whether to obtain a home inspection remains completely voluntary, as it has always been. But the clear position by HUD is that it urges homebuyers to consider and choose, one way or the other. In fact, HUD goes further and informs readers that FHA will not perform a home inspection nor guarantee the price or condition of the property, with the clear implication that this remains the choice and responsibility of the homebuyer.

This second message is not currently reflected in Sec. 8(12). ASHI recommends that Sec. 8 (12) be amended to include the HUD-adopted message, encouraging prospective homebuyers to obtain a voluntary home inspection. This would ensure that the mortgage information booklet is consistent with the base HUD materials it will summarize on this topic. Such an amendment would be a logical extension of the concept already contained in Sec. 8(12) and synchronize with existing HUD communications.

With that, Mr. Chairman, ASHI is prepared to enthusiastically support the bill.

Mr. Chairman, I thank you once again for your outstanding leadership on the counseling issue. I thank you for this opportunity to present ASHI's views with regard to HR3938.

_____

Randall G. Pence
President
Capitol Hill Advocates, Inc.
On behalf of ASHI

House Financial Services Housing and Community Opportunity Subcommittee Hearing Entitled "Successful Homeownership and Renting Through Housing Counseling"—March 18, 2004

Written Testimony of ACORN
Association of Community Organizations for Reform Now

The issue of housing counseling is an important one. Our sister organization, ACORN Housing, is one of the largest providers of housing counseling in the country. Last year, ACORN Housing counseled 17,398 households and 6,570 of these people purchased homes. They counsel hundreds of people each week. Because of that, we know the importance of counseling as well as its limits. Housing counseling can help safeguard homeowners against common mistakes as well as unscrupulous and predatory lenders. At the same time, it is no substitute for strong legislation to protect borrowers against predatory lending and other abuses.

ACORN Housing and other counseling groups have developed a good working relationship with the Department of Housing and Urban Development. Their professional staff is knowledgeable at the issue and works well with non-profit community organizations that provide housing counseling. We have a major concern that the proposed legislation by Chairman Ney, HR 3938, would upset this delicate balance.

The proposed advisory council has the potential to inject a politicized body into the work of granting housing counseling funds. It would subject this process to pressure from industry lobbying. It is important that housing counseling be free from this pressure to ensure unbiased, fair advice.

HR 3938 mandates the use of counseling software. While this would initially have to be accompanied by face-to-face counseling, the door is left open for this software to replace this human contact. Research has shown that this type of "virtual" counseling is far less effective.

The legislation also opens the door to groups other than non-profits and government bodies doing counseling. These "other entities" could include for-profit business, including affiliates of lenders. This would set up a major conflict of interest, allowing those with an interest in profiting off of this industry to provide advice that should be given by impartial groups.

The bill requires that the advisory council develop national standards for materials used in housing counseling. This "one size fits all" approach would take away local groups' ability to provide information tailored to particular demographic or regional groups. This is especially worrisome given the concerns about the makeup of the advisory council.

Finally, this bill provides no new money for housing counseling beyond what President Bush has already proposed. In fact, it would lead to a reduction in funding for direct counseling activities, as some money would have to go to establishing the new advisory

council, the new division, and other activities—none of which directly benefits consumers.

There is a need for better housing counseling. There is a need for greater funding for these activities. But the proposed bill does none of this, only siphoning money from the effective direct counseling already going on.

ACORN would suggest an alternative approach. Increase funding for housing counseling and training to build capacity of local groups. This is no substitute for passing strong legislation to protect consumers from predatory lending—especially since so much of these predatory loans are refinances, made long after people attend housing counseling--but in conjunction with strong laws, it can help protect America's homeowners and prospective homeowners from unscrupulous practices as well as common mistakes. This is our goal, and we look forward to working with members of this subcommittee to reach that goal.

For more information contact:

Matthew Mayers
Legislative Representative
ACORN National
739 8th St. SE
Washington, DC 20003
mmayers@acorn.org
www.acorn.org
202-547-2500
202-546-2483 fax

Statement of the Housing Policy Council
Of The Financial Services Roundtable

Submitted to

The Subcommittee on
Housing and Community Opportunity
Of
The House Committee on Financial Services

On

H.R. 3938

Expanding Housing Opportunities through Education and Counseling

March 18, 2004

Chairmen Ney, Ranking Member Waters, and members of the Subcommittee on Housing and Community Opportunity, it is a pleasure to submit this testimony to the Subcommittee on Housing and Community Development on behalf of the Housing Policy Council of The Financial Services Roundtable.

The Housing Policy Council is made up of seventeen of the largest mortgage finance companies in the nation. The members of the Roundtable and the Housing Policy Council originate over 65 percent of the residential mortgages in the United States. Our members strongly support the goal of homeownership for all Americans and help millions of consumers meet that goal every year.

As part of their lending programs, our members regularly counsel consumers on questions related to homeownership, and provide names of independent third party counselors whom the consumers may consult as they see fit.

The Housing Policy Council has reviewed H.R. 3938, the Expanding Housing Opportunities through Education and Counseling Act, introduced by Chairman Ney and Representatives Velasquez and Scott. We believe that it is a bipartisan bill that will improve counseling efforts and aid consumers interested in being home owners or already participating in homeownership. Our suggestions for changes are few, and are described toward the end of this testimony.

The Housing Policy Council wants to thank Chairman Ney for his leadership on these issues. The Chairman continues to demonstrate his commitment to insuring that all Americans have access to credit, and the opportunity to better their lives through homeownership. The Council also appreciates the work of Representatives Velasquez and Scott on this counseling legislation.

We would first like to share with the Committee information on some of the counseling activities that the member companies of the HPC already have underway. A more extensive discussion of the ways in which HPC members assist borrowers can be found in the 2002-2003 Financial Services Roundtable Survey of Community Involvement, a copy of which is being provided with this testimony.

Many of our members provide access to counselors as a routine matter in "work out" situations, situations in which a borrower has become delinquent on his or her loan payments and they find themselves facing a possibility of becoming even further behind, perhaps to the point of losing the house in a foreclosure.

Our members do not profit from foreclosures. Our members benefit by serving borrowers and expanding home-ownership when their customers repay their loans in a timely fashion. A steady stream of payments unmarked by missed payments or late payments is the standard practice of most borrowers, and for those who deviate from that standard practice, the lender and the borrower often work together to find a way to bring the loan up to standard and keep the borrower in his or her home. Working hard to work out a solution to the problem faced by the borrower, therefore, is very important to our members.

For many of our members, it is common practice to work with a counselor who has been engaged by the borrower to repair the financial problem. Sometimes that counselor is a non-profit entity, sometimes a for-profit. Sometimes the counselor is consulted following suggestions made by branch personnel, sometimes after the borrower has opened a special page on a website of one of our members, and from there clicked to a link of a non-profit that has agreed to be listed on the web site. Sometimes the borrower finds a counselor on his or her own, either through word of mouth from friends, or any of a number of other ways.

These counselors are independent of the member company, and their counsel to the consumer will be that which is in the best interest of the consumer. Usually, however, what is in the best interest of the consumer in these situations will also be in the best interest of the lender, since counselors understand how important good credit is to consumers.

In addition to third party counselors, counsel and advice is also provided to the borrowers by employees of our members, and in many companies, that counseling function has a separate operational location within the organization.

Counseling that our members or third party counselors provide to the borrower by our members may be done in person at the member's offices

or the offices of the counselor, over the telephone, or even through on-line Internet programs.

Our member companies do not limit their counseling to work-out situations. Many have in-house financial education programs designed to acquaint first time buyers with the responsibilities and liabilities of home ownership. Such programs are offered not only to those who have applied for a loan, but also to those in the community who have not yet applied. Sometimes those programs are administered through documents that contain information and answers to questions and sometimes through community outreach meetings. HPC member companies use their offices after working hours for such meetings, and sometimes avail themselves of community buildings, schools, churches or other appropriate sites.

Financial education programs and counseling programs share many elements of similarity, and the HPC has encouraged its members to fully leverage the skills in their organizations to provide education and counseling and to publicize more broadly the programs they are offering.

One example of cooperation between our member companies is Chicago's Home Ownership Preservation Initiative, or HOPI. This partnership between the City of Chicago, Neighborhood Housing Services of Chicago (NHS) and key lending, investment and servicing institutions doing business in Chicago has had promising initial results and could ultimately serve as a model for similar programs in other metropolitan areas. Many Housing Policy Council member companies are working with the City and NHS in this effort.

The program utilizes neighborhood based outreach strategies, the City of Chicago's city-wide 311 telephone campaign, and post-purchase education.

A key element of the outreach strategy has been homeowners' workshops and neighborhood-based financial education workshops designed especially for homeowners who might be experiencing difficulty in making their mortgage payments. Homeowners in attendance who are in trouble are encouraged to follow-up with NHS and the participating company to work toward a solution.

An important avenue to reach homeowners before their problems become overwhelming is being pursued through the use of the city's non-emergency help line - 311 telephone number. Using the 311 number, homeowners concerned about their mortgage payments can call and be given guidance to address their situation.

A recent public information campaign to increase awareness of the 311 number has had immediate success. Callers to 311 are connected with one of three credit counseling agencies affiliated with the Credit Counseling Resource Center. The counselor provides an in-depth assessment of the homeowner's financial situation and an individual action plan; serves as a liaison between the homeowner and the mortgage company, where appropriate; and provides referrals to NHS where housing preservation, rehabilitation, and community-based services, as well as to other local resources for job training, tax assistance, and foreclosure prevention classes.

Education forums to explain the 311 program have expanded to include the use of lender offices after business hours, schools, churches, libraries and community-based facilities. The goal is to make all homeowners aware of this number and to encourage its use. Utilizing the number will permit homeowners at risk to access assistance before they are in serious trouble and while the chances of rehabilitation are better.

The third leg of the HOPI stool is post purchase education. The city will work with NHS and participating lenders and housing counseling agencies to deliver a post-purchase education curriculum. A series of classes is being held in various communities throughout the city, focusing on post-purchase issues, including home maintenance, taxes and insurance, budgeting and credit, home improvement, and refinance. The key message – avoid getting into financial trouble.

Finally, in situations where all counseling and remediation efforts are exhausted and a home is foreclosed, the partnership seeks to reclaim the building for affordable homeownership. Acquisition through purchase or rehabilitation has been made possible through deep discounts from lenders including HPC members BankOne, GMAC-RFC, Citigroup, Chase, Household and Washington Mutual. HUD has participated through the asset control area program, and has provided funds for rehabbing vacant buildings.

HOPI is one example, in many ways one of the most innovative, of programs in which HPC member companies have become active participants in the communities. As in many of the programs in which member companies participate, counseling is an integral part of HOPI. It has worked well with the other needed facilities and resources to increase the opportunity for home ownership in Chicago, and to decrease the possibility of homeowners losing their homes because of an inability to meet mortgage payments.

Comments on the bill

The Housing Policy Council believes the proposed legislation is a positive contribution to the effort to improve homeownership education for consumers.

The Council particularly believes that coordinating the myriad of counseling programs within one HUD office is very desirable. Similarly, outreach to consumers through an 800 number and a web site will make access much easier for potential or existing homeowners, and permit them to reach the programs that are available, and requiring certification of counselors will eliminate from the process those not qualified to counsel homeowners.

The Council also believes that it is appropriate to consider systematically what the root causes of foreclosure might be, and the use of the entire resources of HUD to do so will advance all of our knowledge. As you can tell from earlier comments in this testimony, the Council firmly believes that financial education is something in which all lenders, the government and the public should engage. Specific reference to it in the bill is a positive contribution.

On page 23, paragraph 8(b)(4), which describes what should be in the revised mortgage information booklet, lists a number of questions the consumer should ask. Apparently the consumer should ask the lender these questions, but the lender does not have the answers to some of the questions such as whether the consumer sufficiently shopped for the loan, whether the loan will benefit the borrower, etc.

It may be that what is intended is that the consumer should be directed in the booklet to consider these questions and discuss them with the lender. That would be appropriate, although even there, the lender will not have the full answers to these questions.

The Housing Policy Council supports H.R. 3938, the Expanded Housing Opportunities through Education and Counseling Act, and our members look forward to working with its sponsors and the committee in perfecting the legislation as it moves forward. Thank you for the opportunity to provide testimony on this important housing and credit issue.

WRITTEN TESTIMONY OF

THOMAS A. BLEDSOE
PRESIDENT
HOUSING PARTNERSHIP NETWORK

SUBMITTED TO

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

U.S. HOUSE OF REPRESENTATIVES

REGARDING

H.R. 3938 – EXPANDING HOUSING OPPORTUNITIES THROUGH COUNSELING AND EDUCATION ACT

MARCH 18, 2004

The Housing Partnership Network welcomes the opportunity to provide written testimony regarding the recently filed bill H.R. 3938 "Expanding Housing Opportunities Through Counseling and Education Act." The Housing Partnership Network is a national membership network of regional, affordable housing nonprofits. The Network has 79 member organizations operating in 36 states. Network members are some of the nation's most accomplished nonprofit developers, lenders, and providers of homeownership services. Together, we have developed or financed over 300,000 units of rental housing; built or helped lower-income families purchase or rehabilitate 200,000 homes; and provided homeownership counseling and support to 250,000 families.

In 1995, the Housing Partnership Network was certified as a HUD-approved counseling intermediary. Since that time, the Network has granted over $10 million in federal funding to support the efforts of 34 of our nonprofit members to provide counseling to 200,000 low and moderate income households. On average, our members raise $7 dollars through state, local, and private sector support for every federal dollar we grant for housing counseling. Our members primarily provide individual pre-purchase counseling, often combined with homebuyer education, and individual mortgage and foreclosure prevention counseling.

The pre-purchase counseling provided by our nonprofit members helps low and moderate income and minority households to make informed home purchase choices, especially regarding mortgage loan terms. Importantly, this counseling often facilitates access to the down payment assistance and soft second mortgage programs that make home ownership affordable over the long term for low and moderate income home buyers. Mortgage counseling, or post-purchase counseling, helps current homeowners with budgeting, and most importantly, with making wise refinance and home improvement decisions, so that their home equity is protected and preserved. Finally, foreclosure prevention counseling helps households to make informed choices regarding loss mitigation options and to take the necessary steps to regain financial control and remain in their homes if possible.

We would like to commend Congress for it recent demonstration of support for housing counseling by supporting increases to the housing counseling appropriation to $35 million in 2002 and $40 million in 2003. These additional resources significantly increase the ability of housing counseling organizations throughout the country to reach more low and moderate income and minority households. Especially important is improving the ability to reach households early – whether that be early in the home buying process, before a refinancing decision, or early in delinquency to ensure that low and moderate income households attain and retain the goal of homeownership. We would like to encourage Congress to continue this support by approving the $45 million proposed in the 2005 HUD budget.

With this said, we have concerns regarding the recently filed legislation, H.R. 3939 "Expanding Housing Opportunities Through Counseling and Education Act." Our specific concerns center on three aspects of the legislation, as outlined below.

1. Opening Up Eligibility for Housing Counseling Assistance to Entities Other Than States, Units of Local Government, and Nonprofits
   On page 17, line 10, the legislation authorizes HUD to make financial assistance to States, units of local governments, nonprofit organizations *and other entities* (italics added). States, local government, and nonprofits are currently authorized to received HUD housing counseling support. There is no definition of "other entities" in this legislation. A primary reason that HUD currently funds public and nonprofit organizations to provide housing counseling is because these organizations are in the best position to offer objective advise to households. Another important reason, is to ensure that an inability to pay does not preclude any household from receiving needed counseling advice regarding home purchase, refinancing, loss mitigation options, or rental housing options.

   On this same page, line 15 and 16, the legislation authorizes the Secretary to "establish standards and guidelines for eligibility of organizations (*including* government and non-profit organizations) to receive assistance."

   There are already specific eligibility criteria for government and nonprofit organizations to receive housing counseling grants and assistance. We are concerned about language that broadens eligibility for assistance for housing counseling funding to other entities, and are unclear regarding the rationale for this. We recommend that any such language be specific as to what entities would be eligible for funding, and detail the purposes for which such entities could be funded.

2. Certification and Development of Mortgage Software Systems In Lieu of Individual Housing Counseling
   On page 13 (beginning at line 15 and carrying over to page 14) this legislation mandates the Secretary to certify mortgage software programs for consumer use, and authorizes the development of such mortgage software systems using private sector software companies. While during a pilot phase, these mortgage software programs can only be offered in conjunction with counseling by a housing counselor, following the pilot phase they do not need to be, and the Secretary is encouraged to make them widely available in public places and through the Internet.

   Furthermore, on page 16 (lines 11 – 25), the legislation authorizes creditors (servicers), who are currently required to notify households delinquent 45 days of the availability of housing counseling through a referral to a specific HUD-approved counseling agency or to the HUD 800 number that lists all HUD-approved counseling agencies, to notify them, as an alternative, of the availability of these "mortgage software systems."

We oppose any language that would authorize the certification and development by HUD of mortgage software programs for consumer use for several reasons: 1) use of a software is not a substitute for counseling and should not be endorsed by HUD as such; 2) the vulnerable populations who are most at risk of making unwise home purchase or refinance decision (such as the elderly, those with limited education, or those with language barriers) are least likely to use a mortgage software to evaluate their choices; and 3) the certification and/or development of mortgage software programs that can meet adequate consumer protection and fair housing standards will be very difficult, and thus will siphon needed resources away from supporting the provision of, and expanding the availability of, quality individual counseling, which should be the primary focus and outcome of any housing counseling legislation.

3. Study on Defaults and Foreclosures
   On page 20, lines 8 – 21, the legislation mandates the Secretary to conduct a study on the root causes of default and foreclosure using all empirical data available. The result of the study must be a report to Congress that includes recommended legislation and best practices.

   We are concerned that such a study is redundant of data already available regarding defaults and foreclosures, and will only take needed resources away from the provision of housing counseling in local communities and may yield little or no new information. Our understanding is that HUD is currently required to provide regular analysis on FHA defaults and foreclosures to Congress. Furthermore, a study of FHA data will not provide meaningful insight into the root causes of default and foreclosure among conventional or subprime loans, about which there is currently ample data to inform any necessary legislative action.

Alternatively, we strongly encourage the subcommittee to consider the following recommendations in a redraft of this or future housing counseling legislation:

1) Build the capacity of public and nonprofit counseling organizations through increases in funding for counseling grants, and through authorization of additional funding specifically for technology investments and training of HUD-approved counseling agencies. This is especially important in the area of mortgage and foreclosure prevention counseling;
2) Authorize additional funding for a national multimedia (cable, radio, and print) outreach effort to encourage households to seek counseling before making a home purchase or refinance decision and to warn them of the dangers of predatory lending, home equity scams, and high cost loans. This could include improvements to the mortgage information booklet required under Section 5 of the Real Estate Settlement Procedures Act of 1974 and improvements to HUD's website in terms of consumer protection information; and
3) Require households who are considering a high interest rate home purchase or refinance loan to receive individual counseling before signing a contract.

Again, thank you for the opportunity to provide this written testimony. I would be happy to answer any questions members of the subcommittee may have. We appreciate the subcommittee's interest in housing counseling, and welcome the opportunity to work with you to improve the availability and delivery of these important services for low and moderate income and minority households.

Statement of

The National American Indian Housing Council

House Financial Services Subcommittee on Housing and Community Opportunity, Chaired by Rep. Bob Ney, (R-OH)

Hearing on H.R. 3938
March 18, 2004

The National American Indian Housing Council (NAIHC) was founded in 1974 as a 501(c)3 nonprofit agency. Our Mission Statement is to promote, support and uphold tribes and tribally designated housing entities (TDHE's) in their efforts to provide culturally relevant, decent, safe, sanitary, and affordable housing for Native people in Indian Communities and Alaskan Native Villages.

For more than a decade, NAIHC has been providing technical assistance and Leadership Institute homebuyer education and credit counseling training to Tribes, Indian Housing Authorities, and TDHE's at national and regional Native conferences, through on-site visits, and in conjunction with other related organizations.

NAIHC applauds the President for proposing an increase in FY 2005 funding for homebuyer education at HUD, and we appreciate this Committee taking up the issue through H.R. 3938, but we are concerned that not all minorities are being considered in this initiative. We want to make sure that Native Americans, with possibly the lowest homeownership rate of any minority in the country, are targeted for increased homebuyer education. The cultural and language barriers to conventional mortgage lending are keenly felt on rural Indian reservations, which are often compared to third-world or developing nations within United States borders.

NAIHC receives a yearly appropriation from Congress to provide technical assistance and training to Tribes to implement federal housing programs, but we also last year received a grant from HUD to develop a housing counseling manual. During the past several years, NAIHC, the National Congress of American Indians (NCAI) and a number of other partners, including one of your hearing witnesses, the Neighborhood Reinvestment Corporation (NRC), have been working

together to address specifically homeownership in Indian Country. We identified the need to create national education material that is specific to the Native American culture.

Many local, regional, and national Native American homebuyer educational products exist. However, none are culturally specific enough for Native Americans and they are not provided in a user-friendly format, such as providing participant's guides and instructor's guides. In addition, other national non-Native products are available; however, they are not, for the most part, relevant to the mortgage issues that confront Native land issues. Prior to the inception of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) and the development of the FHA 248 and HUD 184 Indian Loan Guarantee Programs, tribal trust land was not securable under conventional mortgage financing. Financing was unavailable to Native people wanting to build, purchase, or rehabilitate homes on their own tribal land. However, since NAHASDA, home loans can now be secured by way of a leasehold mortgage. Mortgage financing is finally a viable resource for qualifying members of the Native American and Alaskan Native communities. Tribal people need to become aware of these opportunities.

It was determined by NAIHC and its partners that homebuyer education is a critical component of any homeownership initiative in Indian Country. In most cases Native families are either first generation mortgage loan recipients or first–time mortgage loan recipients. Tribal families often seek assistance to learn about homeownership, its benefits, and requirements because it is unfamiliar territory. In some instances, they may have less than good credit or no credit history at all, or they may not be familiar with the mortgage lending process and required home maintenance activities. Education and counseling is imperative in helping a Native American individual or family become a successful homeowner.

Given this premise, a "Train the Trainer" Guide entitled, "Pathways Home, A Native Guide to Homeownership" has been developed with both a Participants Guide and an Instructors Guide. It is presented in a three-ring notebook, as we recognize that while there are many commonalities among tribes, there are also many differences. This notebook will allow the various tribes to insert the material that is relevant to their particular area. This training will be an accredited training once the participant has passed the test given after a four and a half day training period. Therein lies the success: Native people becoming educated about the home buying process and taking advantage of mortgage loan resources to purchase an affordable home when they feel they are ready.

NAIHC, along with its partners, will continue to work together to provide stellar homeownership education and counseling opportunities to Native Communities and Alaskan Native Villages who are seeking housing opportunities, but there is only so much we can do with our current resources. In a national movement to support counseling entities, such as we see in H.R. 3938, we urge the Congress to provide additional support for Native American communities.

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