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HUD AND NEIGHBORWORKS HOUSING COUNSELING OVERSIGHT

HEARING

BEFORE THE

SUBCOMMITTEE ON
INSURANCE, HOUSING AND
COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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HUD AND NEIGHBORWORKS HOUSING COUNSELING OVERSIGHT

Wednesday, September 14, 2011

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

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 2128, Rayburn House Office Building, Hon. Judy Biggert [chairwoman of the subcommittee] presiding.

Members present: Representatives Biggert, Hurt, McHenry, Duffy, Dold; Gutierrez, Waters, Clay, Watt, and Sherman.

Also present: Representative Green.

Chairwoman BIGGERT. This hearing of the Subcommittee on Insurance, Housing and Community Opportunity will come to order.

We will start with our opening statements. Without objection, all members' opening statements will be made a part of the record. I will recognize myself for such time as I may consume.

Good afternoon and welcome to this hearing on HUD and NeighborWorks Housing Counseling Oversight. I welcome today's witnesses. Today, we will examine the Federal housing counseling programs administered by HUD and the Neighborhood Reinvestment Corporation, or NeighborWorks.

Housing counseling is an important form of financial literacy. As a former real estate attorney, I understand and appreciate the value of wise counsel. Now, we don't ever go to a closing on a home purchase without an attorney, which I enjoyed being able to go to all those, and I cannot say enough good things about encouraging prospective or current homeowners to seek in person HUD-certified housing counseling.

When constituents come to my office for help, we always coordinate with our local housing counselors. That is why I am concerned that appropriations for the housing counseling programs administered by HUD were zeroed out in Fiscal Year 2011 and would remain cut under the Fiscal Year 2012 appropriations bill.

Meanwhile, a separate program, NeighborWorks, has become the only recipient of Federal housing counseling funds, and I fear that by eliminating funds over the 2,300 HUD-certified local housing counseling agencies, as well as States and intermediaries, many seniors and first-time home buyers and others will lose access to housing counseling, and that is unacceptable.

In the darkest days of this financial crisis in my Congressional District, it has been the counselors, not the array of new Federal

foreclosure programs, that have helped many families restructure their budget, communicate with lenders or servicers, avoid foreclosure and stay in their homes. More than any government foreclosure scheme, reliable and effective financial counseling has made the difference for struggling homeowners. It also helps potential borrowers make informed decisions and avoid financial pitfalls down the road.

Throughout this crisis, we have been reminded that some individuals would be better served by renting versus owning a home. We have also seen how certain financial products, such as mortgages or reverse mortgages, are not suitable for every household. That is why the law requires seniors to obtain impartial, nonpartisan advice from a HUD-certified housing counselor before securing a reverse mortgage.

Today, our task is to closely examine Federal housing counseling programs and ensure they are working effectively to help those in need. I look forward to today's discussion, particularly about the distribution of funds, standards for agencies, counselors and counseling, and data on the effectiveness of counseling.

I also look forward to an update on HUD's progress in setting up the Office of Housing Counseling and witnesses' comments on discussion draft legislation to enhance oversight and transparency of NeighborWorks housing counseling programs.

The bottom line is that Congress should fund and encourage effective housing counseling to be more accessible in our communities. It is the first line of defense to prevent another foreclosure crisis, helping some families recover from this one, and is critical for our seniors seeking security in their retirement years.

With that, I yield to the ranking member, Mr. Gutierrez from Illinois.

Mr. GUTIERREZ. Thank you so much, Chairwoman Biggert.

And thank you to all of the witnesses for joining us this afternoon as we discuss these vital housing counseling programs. I know that some of you have traveled from Illinois to be here, so a special welcome to you.

As we sit here today, one in four families are underwater on their mortgages. Home values continue to fall in many parts of the country, and millions of families are still facing the possibility of foreclosure.

Meanwhile, programs designed to prevent foreclosure aren't reaching as many people as intended. Faced with these challenges, it is essential that we use taxpayer dollars responsibly and in the most effective way possible. That is part of what we are here today to discuss. We need to work toward better coordination between various housing counseling programs, better research to show us which programs give us the biggest bang for our buck, and better oversight and guidance for the thousands of agencies providing these services in our community.

But here is the unfortunate fact: While we sit here working with HUD and NeighborWorks, challenging them to constantly improve the way they deliver their services, HUD's housing counseling programs have been almost entirely stripped of funding for the second year in a row. HUD is facing $88 million in cuts that would have

been used for pre-purchase counseling, rental counseling, and reverse mortgage counseling for seniors. This makes no sense.

The market is desperate for more first-time home buyers, and we are shutting down programs that help families toward homeownership. It is getting more difficult for renters to find affordable apartments in many parts of our country, and we are telling community organizations to stop helping them.

Seniors are struggling to make ends meet, and we are denying them the access and information they need to make tough decisions about reverse mortgages. It is hard to believe that this is how Congress is choosing to respond to an ongoing housing crisis.

Today is a challenge to talk about solutions. We need to know that housing counseling dollars lead to positive outcomes in our neighborhoods. We need to understand the impact that funding reductions will have on the ground. I am looking forward to a productive discussion about what works.

Before I conclude, I would like to ask the chairwoman for unanimous consent to submit two statements for the record: one from the National Council of La Raza; and the other from the Coalition of HUD Housing Counseling Intermediaries.

Chairwoman BIGGERT. Without objection, it is so ordered.

Mr. GUTIERREZ. With that, I thank the gentlelady for hosting this hearing, and I really look forward to working with my colleague, the chairwoman from Illinois. Thank you so much.

Chairwoman BIGGERT. Thank you, Mr. Gutierrez.

While we are on that, I would also insert for the hearing record, without objection: a letter dated September 12, 2011, from the National Association of REALTORS®; and a letter dated September 13, 2011, from the executive director of the HOPE NOW Alliance.

Mr. Hurt from Virginia, you are recognized for 1 minute.

Mr. HURT. Thank you, Madam Chairwoman.

I thank the gentlelady for yielding, and I am grateful for her leadership as the subcommittee conducts another vital oversight hearing.

Today, we are examining the efficiency and effectiveness of Federal housing counseling programs operated by HUD, NeighborWorks America, and the State and local organizations with which they work. Since the beginning of the 112th Congress, the Financial Services Committee has been engaged in rigorous oversight of the Dodd-Frank Act as well as the agencies and programs within the committee's jurisdiction. Today's hearing demonstrates this committee's commitment to this important work.

As our country faces a national debt exceeding $14.5 trillion, my constituents, the people of Virginia's Fifth District, and all Americans are demanding that the Federal Government do more to maximize the value of the limited funds we can allocate to Federal programs, such as the housing counseling initiatives that this subcommittee is analyzing today.

I thank Chairwoman Biggert for holding this important hearing.

I thank each of you for joining us and sharing with us your insights. I yield back the balance of my time.

Chairwoman BIGGERT. I thank the vice chairman of this committee.

And with that, I recognize Mr. Dold of Illinois for 1 minute. This must be Illinois day here.

Mr. DOLD. We certainly are concerned about housing in Illinois, so we are glad to have the witnesses here. Thank you all for joining us. I certainly want to thank Chairwoman Biggert for hosting the hearing. And I want to thank again all of you witnesses for joining us today and for your important work in our community.

As our witnesses will detail for us all, housing counseling helps people, and counseling assistance is especially important during these difficult financial conditions. At the same time, we must acknowledge our extremely difficult fiscal reality with repeated trillion and a half dollar deficits and with over $14.6 trillion in our national debt, the official national debt—if we look at the unofficial debt and our liabilities, long-term liabilities, it is significantly larger than that. This fiscal reality requires very difficult decisions with very difficult trade-offs that will necessarily dissatisfy many people.

In this context, housing counseling programs, like many other Federal programs, must show meaningful, measurable, and verifiable cost-effectiveness, along with transparency and accountability. By doing so, we maximize the chances that the highest number of beneficiaries will receive the maximum available assistance and that American taxpayers will support these programs to the greatest extent possible given the fiscal realities.

I look forward to hearing from our witnesses about how we can work together to achieve these important objectives.

Thank you, and I yield back.

Chairwoman BIGGERT. Thank you, Mr. Dold.

We will now proceed with our first panel of witnesses.

We have with us for the first panel: Ms. Deborah Holston, acting Deputy Assistant Secretary for Single Family Housing, U.S. Department of Housing and Urban Development; Ms. Eileen Fitzgerald, chief executive officer, NeighborWorks America; and Ms. Alicia Puente Cackley, Director of Financial Markets and Community Investment, U.S. Government Accountability Office.

Without objection, your written statements will be made a part of the record, and you will each be recognized for a 5-minute summary of your testimony.

We will start with Ms. Holston. You are recognized for 5 minutes.

STATEMENT OF DEBORAH C. HOLSTON, ACTING DEPUTY ASSISTANT SECRETARY FOR SINGLE FAMILY HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. HOLSTON. Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee, I thank you for the opportunity to testify today regarding HUD's Housing Counseling Assistance Program and the steps we are taking to speed and improve the program to ensure that it has the greatest possible impact in our Nation's communities.

I appreciate the strong support for the program provided by so many members of this subcommittee, including, of course, Chairwoman Biggert.

For nearly 4 decades, HUD's Housing Counseling Program has played a critical role in helping American families realize the dream of owning a home and finding quality, affordable rental housing. In 2010, HUD-approved housing counseling agencies counseled more than 3 million households, a record for the program.

However, Congress recently elected to cut HUD's housing counseling appropriation from $88 million in 2010 to zero in 2011. While we will be able to fund housing counseling agencies through September 30th, without 2012 appropriations, counseling agencies across the Nation will face a gap in funding. The effects of our severe economic downturn make this a wrong time to cut counseling funding.

Madam Chairwoman, there is strong evidence that housing counseling is one of our most powerful weapons to help distressed homeowners avoid foreclosure. Preliminary findings from a recent study by ABT Associates show that the vast majority of homeowners who receive foreclosure counseling from HUD-approved agencies, that is 84 percent, continue to live in their homes after 18 months. More than two-thirds were current on their mortgage.

In terms of pre-purchase counseling, one well-cited study found that face-to-face counseling was the most effective mode of delivering counseling, resulting in a 34 percent reduction in delinquencies.

Put simply, Madam Chairwoman, housing counseling works.

And HUD's Housing Counseling Program is focused on results. Through the first three quarters of 2011, agencies have used HUD grant funds to help more than 15,000 clients bring their mortgages current; 11,000 to obtain mortgage modifications; 11,000 to purchase homes; 12,000 to become mortgage-ready; and nearly 8,000 seniors to obtain reverse mortgages.

The HUD program is the only dedicated source of Federal funding for the full spectrum of housing counseling. Because of this, agencies can use their funds to provide services that respond to local needs. For example, in Florida, agencies provided 60 percent of their clients last year with foreclosure prevention counseling while also dedicating 20 percent of their services to providing reverse mortgage counseling to their large population of seniors.

Housing counseling grant funds are made available to locally approved housing counseling agencies, intermediaries, and State housing finance agencies. Approximately 650 local agencies are unaffiliated with an intermediary or State agency. Last year, HUD provided grants to approximately 400 of these agencies, more than 100 in New York, North Carolina, Florida, California, and Illinois, States hard hit by the housing crisis.

That said, Secretary Donovan has shown a commitment to measuring what works and discovering what we need to do better, and housing counseling is no exception. One area where we know we can improve is speed.

Historically, running the housing counseling grant competition and obligating all the funds has taken about 8 months from the time appropriations are made, and we know that is not quick enough. That is why HUD has developed a department-wide plan to streamline its processes and reduce that timeframe. We have already made great progress. HUD has reduced the average number

of days between appropriations and NOFA publication to 60 days, an 82 percent reduction from last year.

But it is not just about doing our jobs faster. We also need to ensure that every taxpayer dollar is achieving results. Our certification and monitoring includes onsite and remote reviews. In 2011, we enhanced our monitoring of intermediaries by awarding a contract to a top 10 CPA firm to ensure compliance with Federal financial and administrative grant requirements.

Finally, as part of the Dodd-Frank Act, we have been in discussions with the Appropriations Committee about establishing the Office of Housing Counseling, and we expect to submit our request for staffing reorganization to counsel Congress in the next 60 days.

So, Madam Chairwoman, I am confident that the changes we are making will result in a more effective Housing Counseling Program. I look forward to continuing our work together, and, with that, I would be happy to take your questions.

[The prepared statement of Ms. Holston can be found on page 89 of the appendix.]

Chairwoman BIGGERT. Thank you so much.

Ms. Fitzgerald, you are recognized for 5 minutes.

STATEMENT OF EILEEN M. FITZGERALD, CHIEF EXECUTIVE OFFICER, NEIGHBORWORKS AMERICA

Ms. FITZGERALD. Thank you.

Good afternoon, Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee. My name is Eileen Fitzgerald and I serve as CEO of the Neighborhood Reinvestment Corporation, doing business as NeighborWorks America.

Thank you for inviting us to speak today. My testimony will address NeighborWorks America, our role as administrator of the National Foreclosure and Mitigation Counseling Program, or NFMC, and the need for a broad scope of housing counseling programs.

NeighborWorks America was established by Congress in 1978. It is the Nation's original community public-private partnership model. NeighborWorks provides support for a wide range of housing and community development activities, not just housing counseling, to its network and to the broader field. Today, NeighborWorks' affiliated network includes more than 235 local and regional nonprofits serving urban, rural, and suburban communities in all 50 States.

NeighborWorks has a rigorous annual assessment process for the members of our network, and we hold them to high standards. For those organizations that cannot meet the standards, we provide intensive assistance. However, if they are unable to turn around their organization, we do disaffiliate them. We also have led a coalition, including HUD, to develop the national industry standards, which establish criteria for housing counseling and training. My written testimony goes into greater detail about our governance, our oversight, and our transparency.

NeighborWorks is an efficient and effective local delivery system for getting taxpayer dollars working quickly in our cities, towns, and counties, which is especially important in this period of scarce Federal budget dollars.

In Fiscal Year 2010, NeighborWorks organizations generated $4 billion in direct investments in their communities, leveraging our core Federal appropriation 23 to 1. In Fiscal Year 2010, NeighborWorks and its network assisted 252,000 families with their housing needs; owned and managed 80,000 quality, affordable rental units; counseled over 100,000 families on homeownership; and supported more than 22,000 local jobs.

NeighborWorks, as the largest nonprofit trainer in the affordable housing and community development field, also awarded 20,000 training certificates to staff and board members at more than 3,500 nonprofit and governmental agencies.

NeighborWorks was already a national leader in the fight against foreclosure when Congress asked us to administer the NFMC program in Fiscal Year 2008. To date, more than 1.2 million homeowners have been counseled through NFMC.

We view this as a temporary role, responding to the mortgage crisis. The NFMC legislation required us to launch the program and award funds within 60 days, which we did. NeighborWorks continues to get money out quickly while ensuring a high level of compliance and oversight to meet our fiduciary duty to Congress and to the taxpayers.

And through an independent study by the Urban Institute, we know that NFMC foreclosure counseling works, saving homeowners $3,200 a year on modifications compared to clients who did not go through NFMC counseling, and they also have shown that NFMC reduces the likelihood of redefault.

We know, however, that the best defense against foreclosure is objective education and counseling before a borrower buys a home, and the most reliable counseling is provided by independent agencies that put consumers and communities first.

NeighborWorks is a strong partner and supporter of HUD's Housing Counseling Program. For many years, NeighborWorks, as a HUD-approved intermediary, has received HUD housing counseling funds to pass through to some of our affiliates. HUD funds also support a portion of the housing counseling training which we provide to practitioners.

HUD housing counseling funds have been critical to building the infrastructure for a strong foundation in a wide range of counseling activities, pre-purchase, rental, reverse mortgage, for NeighborWorks organizations and other agencies. In comparison, NFMC provides very targeted support only for foreclosure counseling activities.

In closing, on behalf of the hundreds of thousands of families served by the NeighborWorks network and NFMC counselors across the country, I thank the committee for its support and stand ready to respond to any questions. Thank you.

[The prepared statement of Ms. Fitzgerald can be found on page 66 of the appendix.]

Chairwoman BIGGERT. Thanks so much.

Ms. Cackley, you are recognized for 5 minutes.

STATEMENT OF ALICIA PUENTE CACKLEY, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. CACKLEY. Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee, good afternoon. I am pleased to be here to participate in today's hearing on housing counseling.

As you know, housing counseling can take many forms and can help consumers determine whether and when to purchase a home, how to manage a mortgage, and how to deal with setbacks that could limit their ability to make timely mortgage payments.

My statement today is based on recent work we have conducted on one type of housing counseling, homeownership counseling, and we will discuss three related topics: first, what research suggests about the effectiveness of homeownership counseling and the challenges of conducting such research; second, shortcomings that our prior work found in Federal agencies' implementation of homeownership counseling requirements; and, third, the status of efforts to establish an Office of Housing Counseling within HUD.

With respect to the research, the limited body of literature on homeownership counseling does not provide conclusive findings on the impact of all the different types of such counseling. Recent research on foreclosure mitigation counseling, which helps financially distressed homeowners who are delinquent on payments, suggests that it can help homeowners avoid foreclosure and prevent them from lapsing back into default.

Findings on pre-purchase counseling, which helps potential home buyers learn about buying a home and explains the financial responsibility of homeownership, are less clear. One study we reviewed concluded that such counseling lowered the default rate for new homeowners, while other studies showed no effect.

Efforts to measure the impact of homeownership counseling have been hampered by a lack of data, as well as by challenges in designing studies and creating effective performance measures. Our recent evaluation of Treasury's financial education and counseling pilot program illustrates this last point.

As a condition of receiving grant funds under the program, grantees are required to report on results of 5 performance goals within 6 months of disbursement and annually thereafter. We found that some grantees were calculating the results of their impact measures in erroneous or misleading ways or were not fully capturing meaningful information, potentially limiting the usefulness of these data for assessing program effectiveness. Further studies on the impact of homeownership counseling are under way at HUD and at Fannie Mae, and these studies are designed to overcome some of the limitation we and others have found related to data and study design.

Turning to my second topic on implementation of homeownership counseling programs, prior GAO work identified shortcomings in the implementation of homeownership counseling requirements for two Federal programs. A 2009 study of HUD's reverse mortgage program found that HUD's internal controls did not ensure that counselors were complying with program requirements. HUD later made improvements to the program that specifically addressed our recommendations.

Another GAO study from 2009 found that Treasury did not effectively track whether borrowers required to seek counseling under the Home Affordable Modification Program actually received the counseling or whether it reduced their rate of redefaults. Treasury officials said that they had not implemented a monitoring process because it was too burdensome for Treasury and for mortgage servicers. They also did not plan to assess the effectiveness of counseling in limiting redefaults, in part because they believed that the benefits of counseling on the performance of borrowers with high debt burdens were well-documented.

We continue to believe that monitoring and assessment would provide valuable information on whether the counseling requirement is having its intended effect.

Finally, with respect to HUD's establishment of the Office of Housing Counseling, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, according to HUD, the agency is developing a reorganization plan but has not yet submitted it for congressional review. Budget constraints could affect the new counseling office.

Although the Dodd-Frank Act authorized $45 million per year through Fiscal Year 2012 for the operations of the new office, HUD has not received appropriations for this purpose. In addition, appropriations for Fiscal Year 2011 eliminated HUD's housing counseling assistance funds, which are primarily grant funds for approved counseling agencies. HUD officials told us that some counseling agencies had already reduced the level of services they provided due to this cut in funding.

Housing counseling groups we spoke with said that the cuts in HUD funding, which they use to leverage private funds, ultimately could result in fewer counseling services for prospective and existing homeowners unless private funds make up the difference.

Chairwoman Biggert, this concludes my prepared statement. I would be happy to respond to questions.

[The prepared statement of Ms. Cackley can be found on page 49 of the appendix.]

Chairwoman BIGGERT. Thank you so much.

With that, we will turn to questions from the members.

I will recognize members for 5 minutes each to ask questions, and I will claim the time for the first 5 minutes.

Ms. Holston, in House Report 111–564, House appropriators noted that the reason they zeroed out HUD's housing counseling funds for Fiscal Year 2011 is because HUD was too slow to disburse funds. In House Report 111–218, to accompany the Fiscal Year 2010 Transportation-HUD appropriation bill, House appropriators expressed a similar concern of the slow expenditure of funds. Has HUD fixed this problem?

Ms. HOLSTON. Thank you, ma'am, for the question, and I would like to say with great pride that we have tremendously increased our NOFA process. In fact, in 2011, we have decreased the time it takes to clear a NOFA to 60 days, which is an 82 percent reduction in that timeframe. So we are very happy to say that there have been significant improvements in our NOFA process.

That also includes a major reduction in time from publication to obligation. In fact, in our most recent grant competition, comparing

publication to obligation, we were actually comparable to the NeighborWorks' most recent competition. So we are very pleased to say that not only is the Department improving its NOFA processing, we are also doing that for the Housing Counseling Assistance Program, where we are actually streamlining that process to include a streamlined manner for high-performing agencies or high-performing grantees.

Chairwoman BIGGERT. All right. Thank you.

Then, Ms. Holston, again, what evidence do we have that housing counseling is effective? In my Congressional District, our local housing counselors do a great job with helping many struggling families or those seeking impartial advice about buying a home or securing a reverse mortgage. But what kind of data has HUD collected to measure the results of housing counseling and its effectiveness?

Ms. HOLSTON. HUD is conducting a housing counseling outcome evaluation in partnership with—excuse me, ma'am. HUD has actually conducted research and is conducting a review of 10 prior studies by Collins and O'Rourke—finds that counseling provided before a homeowner purchases a home can reduce the likelihood of mortgage delinquency. Most studies have found that pre-purchase counseling leads to positive results, reducing delinquency anywhere from 19 to 50 percent, although one study did report no impact.

HUD's PD&R office has implemented a controlled experiment to measure the impact of pre-purchase counseling on a random sample of pre-purchase counselees over time. We will have the preliminary results of that study a year from now, next fall.

Chairwoman BIGGERT. Is there room for improvement, to better track the effectiveness of counseling?

Ms. HOLSTON. Yes, there is room for improvement, and we are studying that, the effects of counseling now.

Chairwoman BIGGERT. Okay. As a follow-up, we want to make sure that all counseling agencies as well as their counselors are qualified and giving sound advice to our constituents. Are HUD standards for oversight of agencies and counselors sufficient, and is there room for improvement?

Ms. HOLSTON. HUD has actually embarked on a strengthened oversight program where we are overseeing not only our HUD-approved—not only the national intermediaries, but also the State housing finance agencies. We oversee multiple State agencies and also local housing counseling agencies. We actually conduct onsite visits or remote monitoring of all of them, all of the affiliates of our national intermediaries, and we do that once every 2 years, at least once every 2 years, providing technical assistance when we are there.

We also are in the process of developing a risk model with realtime data that will allow us to target or better target our remote monitoring, and which would tell us where to go for onsite monitoring.

Chairwoman BIGGERT. I have additional questions, but I will try later or submit them for the record. I recognize Ranking Member Gutierrez for 5 minutes.

Mr. GUTIERREZ. Thank you so much.

Ms. Holston, following up, you spoke about program dollars coming to an end in the very immediate future. Just what program dollars again are coming to an end, and what particular types of counseling would it impact, or all counseling in general, housing counseling in general?

Ms. HOLSTON. HUD provides the only dedicated source of Federal funding for the full range of housing counseling; that is prepurchase to foreclosure prevention. We fund 450 grants—or we provide 450 grants a year. If we were not to receive 2012 funding, then we would not be able to provide that funding.

Mr. GUTIERREZ. All housing counseling programs under HUD, none of them would receive any funding? They would all come to an end in the very immediate future?

Ms. HOLSTON. Yes.

Mr. GUTIERREZ. Okay. I just wanted to make sure that it was all and not just some of the programs.

Ms. HOLSTON. All of them.

Mr. GUTIERREZ. So how many people were served by these housing counseling programs last year?

Ms. HOLSTON. In 2010, we served 3,000 counselees or clients.

Mr. GUTIERREZ. But how many families? So for $88 million, we served 3,000 families?

Ms. HOLSTON. I am sorry, 3 million. I am sorry.

Mr. GUTIERREZ. I was hoping we were going to do a little bit better than that. It is okay; take your time.

Ms. HOLSTON. Okay. We actually serviced in 2010, 3 million families, and that includes 108 with our specific HUD funds.

Mr. GUTIERREZ. Okay. Ms. Fitzgerald, what is looming in the immediate future and what needs to happen so there aren't some draconian impacts on housing counseling?

Ms. FITZGERALD. As we mentioned in our testimony, we think having a HUD Housing Counseling Program is really critical. What it does is support an infrastructure of agencies out there that then, depending on the issues in those communities and the issues like foreclosure, they can leverage that infrastructure to attract additional funding. But without that base of HUD counseling funds, those agencies don't know that they can just keep their staff on, or train their staff to provide that broad range of services.

We know that foreclosures, unfortunately, are still going to happen. There are estimated to be 2 million families facing foreclosure in the next year. So continued resources, both through the NFMC program and through HUD counseling, are critical.

Mr. GUTIERREZ. Is there any particular requirement under the law that before someone can receive a reverse mortgage, they must receive counseling?

Ms. HOLSTON. I am sorry, could you repeat the question?

Mr. GUTIERREZ. Is there any particular requirement in the law that someone receive counseling before they receive a reverse mortgage?

Ms. HOLSTON. For our HECM program, yes, sir.

Mr. GUTIERREZ. And will there be any money in the budget in the immediate future for that kind of counseling?

Ms. HOLSTON. At this point, if we don't receive an appropriation in 2012, no.

Mr. GUTIERREZ. So there won't be any money, but it is a requirement.

Ms. HOLSTON. That is right, sir.

Mr. GUTIERREZ. So senior citizens would have to acquire the counseling?

Ms. HOLSTON. Senior citizens would have get to get the counseling, because it is statutory, but there are no funds in the budget for that.

Mr. GUTIERREZ. It seems to me a rather complicated—I have seen them on TV, and I understand why people would want to access the equity in their home. At other times, it would probably be easier just to sell your home, but you might not be able to sell your home.

What do you think, Ms. Fitzgerald? What do you think the impact will be of not having money for senior citizens?

Ms. FITZGERALD. One big impact is going to be an increase in scammers, so both NeighborWorks and HUD have done a lot of work to try to prevent loan scams, mortgage scams. Many of those folks who were out doing predatory and subprime loans 5 years ago are now in communities trying to really strip equity out of senior citizens. And we have several cases where those scammers know that a person is in a health crisis or needs to fix a leaky roof or something and just doesn't have the income to do it, but has the equity, and they will turn around, scam them, charge them, sometimes actually taking title to their home, which they can't get back.

So having money for counselors so that we can all tell people, here is a safe place for you to go so that you can be protected from these shysters.

Mr. GUTIERREZ. Thank you. My time has expired.

Mr. HURT [presiding]. Thank you, Mr. Gutierrez.

I will yield myself 5 minutes. I was hoping to hear from each of you on the question of the Office of Housing Counseling. It sounds to me from your testimony and from what I have read that that office has not really gotten up and running yet. I would like to know about how effective you think that will be in reaching more people with less resources, and is the future for this office viable?

Ms. HOLSTON. Thank you, sir.

Last year when we realized that we would not receive any additional funds, we quite frankly changed our focus. But we have since—at that point, we had a plan established, and we have since been working with the appropriators to put that in play.

An Office of Housing Counseling would allow us to actually target housing counseling activities. We could strengthen our oversight. We could provide a more directed program to assist families in not only pre-purchase but the full range, the full gambit of housing counseling services.

Mr. HURT. When you say "target the services," what do you mean?

Ms. HOLSTON. That means that the HUD program actually provides a full array, as you know, of housing counseling services, allowing each locality, each area to target specific services or to develop a tailored approach to housing counseling. So that if there is a community that actually needs two types of services more than others, they can provide those—it's up to them.

Mr. HURT. So it is not necessarily prioritizing counseling among the people you are trying to serve; it is really just trying to identify the needs?

Ms. HOLSTON. Yes, sir.

Mr. HURT. Can you submit to this committee a report of where you all are in the planning for this office at this point?

Ms. HOLSTON. We intend to have a plan together within 60 days, a reorganization that shows the Office of Housing Counseling.

Mr. HURT. Maybe we can just skip to Ms. Cackley, if you could answer that question as it relates to this Office of Housing Counseling. What will it be providing us that we didn't have before and especially in the context of the fact that we are really in bad financial shape here in Washington?

Ms. CACKLEY. We have just started looking at the Office of Housing Counseling more specifically so we haven't done direct work on it, especially because it is still so much in the process of being stood up. But we expect to be looking much more carefully at what the counseling office will do in the near future as part of our ongoing work, looking at issues.

Mr. HURT. But you all have looked at other programs, and I am sure that the inclusion of this office in the Dodd-Frank bill was well-intentioned, but I guess my question is, what will it be doing that the current structure does not provide for? Based on what you all have found, is there a need for it?

Ms. CACKLEY. What we—we have not yet tried to look into the distinctions that this office will make in terms of how they will differ from what came before. Our understanding in talking to HUD officials is that they are reorganizing from within. So we have been waiting to hear what their reorganization plan is, and then we will be able to give you a better answer in terms of whether it makes sense or not. We are just not at a point where we have gotten enough information to tell you.

Mr. HURT. All right.

And this brings me to my last question really for Ms. Holston and Ms. Fitzgerald. When you are faced with obviously diminished resources coming from Washington and from the appropriators, how do you target your counseling? Can you only provide enough funding for so much, that is, you hit a threshold, or are you able to determine what the people who need it the most, that is the priority? Is there a mechanism, some sort of measurement that allows you to prioritize the counseling, when we all know that we are not going to be able to provide as much as we would like?

Ms. FITZGERALD. In the NFMC program, we are required to look at the areas of greatest need. Given how much the foreclosure crisis has expanded across the country, that does include a large portion of the country, but we make sure that most of the resources are going there.

The Urban Institute study found that clients who went through NFMC counseling saved more on their loan modifications than those didn't. And that is because a counselor pushes back on the servicer and says, this family has to keep their car to make sure that they can get to the job so they can keep their job so they can pay you. If you total average savings by the number of clients who got loan modifications, that is an annual savings to the American

taxpayer who owns a home of $560 million. So we are generating savings more than—far in excess of what the program for NFMC is costing.

Mr. HURT. Thank you, and my time has expired.

Ms. Holston, do you have anything briefly you want to add? My time has expired.

Ms. HOLSTON. I would just add that in our last round of funding, we directed our funding to 100 major metropolitan areas with the highest need for—that showed a need for mortgage scam funding.

Mr. HURT. Thank you, Ms. Holston.

My time has expired, and so I am pleased to recognize Mr. Watt, the gentleman from North Carolina, for 5 minutes.

Mr. WATT. Thank you, Mr. Chairman.

I understand we have only 4 minutes left before the end of the voting process, so I will try to expedite this.

I want to direct this question to Ms. Fitzgerald and Ms. Holston.

Some of us have raised questions in the past about directing all of the counseling funds through only one neighborhood organization, NeighborWorks, when there might be in some communities other agencies that can do this work more effectively or better. We had some discussions about that previously. Can you tell me what the current status of that is and if we are still directing all of the funds through NeighborWorks, or are there other agencies that are receiving counseling funds?

Ms. Holston, maybe you can tell me that from the HUD perspective, and then Ms. Fitzgerald I am sure will defend her own agency. But I am not condemning what you are doing. I am just trying to find out, is this a rational approach to confine it to just one agency?

Ms. FITZGERALD. What NeighborWorks does—

Mr. WATT. Let me hear from Ms. Holston first.

Ms. HOLSTON. One of the differences between NeighborWorks and HUD is that we provide the full spectrum of housing services and also eligibility. We provide 450 grants every year—

Mr. WATT. Wait a minute. You are answering a question I didn't ask, Ms. Holston. I am asking, is there a rationale for your directing all of your counseling dollars only through NeighborWorks as opposed to through other community-based organizations?

Maybe Ms. Fitzgerald understood the question a little bit better.

Ms. FITZGERALD. So under the NFMC program, by statute, Congress has directed us to give funds to HUD-approved intermediaries, State-housing financing agencies—

Mr. WATT. How many of those are there?

Ms. FITZGERALD. Only 10 percent of the money goes to NeighborWorks organizations. By statute—

Mr. WATT. How many other organizations have been identified and approved by HUD?

Ms. FITZGERALD. Over 1,500.

Mr. WATT. And how is that working? That is all I am trying to find out. This is not a trick question.

Ms. FITZGERALD. Great. Other parts of what NeighborWorks does are under a very different model. Under what we do for counseling, we try to cast as broad a net as possible. We have had 35 State

FHAs, between 16 and 20 HUD intermediaries, and they have worked with over 1,600 grantees.

Mr. WATT. So any organization that is out there complaining about this, we ought to direct them to HUD to make sure that they get preapproval, is that what you are saying?

Ms. FITZGERALD. Exactly.

Mr. WATT. All right. I thank you, and I yield back so I can go vote.

Mr. GREEN. Madam Chairwoman?

Chairwoman BIGGERT. Mr. Green is recognized for a unanimous consent request.

Mr. GREEN. Thank you, Madam Chairwoman. I would by unanimous consent ask that a report entitled, "The Role of Housing Counseling for Asian American and Pacific Islanders," this would be the AAPI community, be placed in the record, and my hope is that I will have an opportunity to speak when I come back with reference to this and other things.

Chairwoman BIGGERT. Yes. Thank you.

In case you are wondering why everybody is going in and out, if you see the lights up there, we had votes, but it is only one. So we were trying to keep going while we were running back and forth. So I just ran back.

Ms. Waters from California is recognized for 5 minutes.

Ms. WATERS. Thank you very much. I am sorry I could be not be here, Madam Chairwoman. But I have a few concerns that I would like to try and address.

I know that some actions have been taken recently against the Neighborhood Assistance Corporation of America; that is NACA. I have a letter here from NACA complaining about NeighborWorks' administration of NFMC and legal compliance. I ask unanimous consent to enter both of these documents in the hearing record.

Can you tell me what actions have been taken against NACA and who took them?

Ms. FITZGERALD. NACA has now filed a lawsuit against NeighborWorks America. NACA's lawsuit suggests that all of the funding of round five of the last round of NMFC, which is out in communities, should be pulled back and the entire process should be rescored for that. Obviously, that would put lots of homeowners at risk of not receiving foreclosure counseling. NACA has said that because they are concerned with our administration of the program.

NACA did receive funds in rounds one, two, three and four. In round five, NACA at the time the round five awards were made was not receiving funds from HUD because HUD had them in a form of a suspended status due to some compliance issues. So HUD can speak to that better for that piece.

Ms. HOLSTON. NACA was approved as a HUD-approved housing counseling agency in 2008. In May of 2009, we conducted a site visit to investigate several themes that had come to our attention after monitoring about 14 of their branches and affiliates. On that day, we identified several compliance issues. We asked them to provide information. They did not do that.

In December of 2010, we suspended their grant. And in August of 2011, they responded to us, and we have cleared their out-

standing compliance issues and went forward and obligated their funds for the 2010 Housing Counseling Assistance Program. They had two grants, one in the amount of $700,000 and the other $200,000.

Ms. WATERS. Let me just slip away from that for a moment, if I still have some time left here on the clock. I want to get a feeling for, how successful are the counseling operations periods with loan modification work?

Ms. FITZGERALD. They are very successful, given the servicer environment. And certainly, Ms. Waters, you have highlighted in the past some of the challenges that counselors have with servicers. So to the degree that the counselors—we have worked to get much better forms of communications with the servicers.

The Urban Institute study that was performed on the NFMC program shows that a comparison group of NFMC clients who did not go through counseling performed worse.

Ms. WATERS. You have some numbers for loan modifications?

Ms. FITZGERALD. Absolutely. Right. NFMC clients who got a loan modification saved $267 a month on their loan modification compared to those who didn't go through counseling, and that is because counselors know how to talk with the servicer—

Ms. WATERS. How many successful loan modifications are you talking about?

Ms. FITZGERALD. Probably a couple hundred thousand; I can get back to you with those numbers.

Ms. WATERS. And have you come to us with documentation of the obstacles that these counselors face working with the servicers? Do you have something to show us that we could use in trying to alleviate these obstacles that the counselors and others are facing in attempting to get loan modifications? Do you have any recommendations whatsoever?

Ms. FITZGERALD. Yes, absolutely. In our most recent—we have had reports to Congress on the NFMC program. They all document some examples of reported challenges that counselors face in dealing with the servicers. So we have that, and there is a recent report that we are just producing, and we also—because we also train counselors, we frequently have meetings with them to get really detailed feedback on what their challenges with the servicers are, and we are happy to share those with you.

Ms. WATERS. Any other recommendations relative to loan modification?

Ms. FITZGERALD. That the servicers move more quickly. There is still a big a challenge with them taking months and months and months to give an answer to a counselor or a homeowner and to make sure that those that are outside Making Home Affordable are realistic modifications.

Ms. WATERS. How much fraud have the counselors experienced? Do you have any idea?

Ms. FITZGERALD. They see a lot of loan scams from their clients.

Ms. WATERS. What do they do with those loan scams or fraud?

Ms. FITZGERALD. There is a couple of things they do. NeighborWorks has worked with a broad consortium, including HUD and Justice and the Federal Trade Commission, and on our loan scam alert site, homeowners or counselors can put in a report

that is then given to the lawyer's committee on civil rights who will follow up on that scam. They will also connect them with individual attorneys who can represent them in that case.

Ms. WATERS. What does HUD do about loan scams and fraud that come to their attention?

Ms. HOLSTON. We have actually just announced awards for our mortgage modification—our mortgage scam grant and—with regard to mortgages that were modified—11,000 mortgages were modified in 2011, and I am looking for other data for you.

Ms. WATERS. So you have grants that go out to nonprofits or others?

Ms. HOLSTON. Yes, ma'am.

Ms. WATERS. Legal Aid, is that one of them?

Ms. HOLSTON. Any HUD-approved housing agency was able to compete, and I will read a list of those successful grantees. Do we have those? I will get back to you with that information.

Ms. FITZGERALD. And one of the big challenges is building awareness. So we have both worked on awareness campaigns. Obviously, the best prevention against scams is trying to help people not be scammed in the first place.

Ms. WATERS. But we have been through this for a long time now. We have been educating and counseling and the rip-off artists and the servicers and the bad folks are winning. They still win and people can't stay in their homes. We have to be more aggressive. We have to come up with some better policies, and I am seeking information and recommendations about what we can do because we are just not able to help enough people.

Ms. FITZGERALD. Right. Through our database in the last year-and-a-half, 17,500 homeowners reported scams. The Federal Trade Commission actually does take some of that information when they have enough, and goes after Internet scammers, as do State AGs and various other enforcement agencies. So encouraging folks to report is also critical.

Ms. WATERS. Thank you.

Chairwoman BIGGERT. Thank you. A further question, Ms. Holston. We are told that HUD is developing a risk model to evaluate the effectiveness of housing counselors and grant recipients. Could you update this committee on the status of—on the development of this risk model with an explanation of the objectives of the model?

Ms. HOLSTON. Yes, ma'am. We have already developed the preliminary aspects of it. We have already identified the data sets that we need. We will be collecting it from our systems and other systems. We intend to launch it within the year. We will base the risk model on the performance review score, the level of grant funding, timely expenditure of grant funding, leveraging funds from lenders and other industry partners, agency performance, substantial complaints, the number of noncompliance findings and recurrence findings, directly approved or not, experience in the program, unspent funds, counselor compensation model. Those will be built into our system. It will take additional funding and we have approximated that cost to be about $800,000, and that it will take about 9 to 12 months for implementation.

Chairwoman BIGGERT. So how would that make things better?

Ms. HOLSTON. It would make things better because we would have more targeted monitoring reviews. We would understand going in what the issues are associated with that housing counseling agency. We would be able to provide more technical assistance and identify those housing counseling agencies that are not in compliance.

Chairwoman BIGGERT. Thank you. Ms. Cackley, in your research, what has GAO found about the effectiveness of homeownership counseling, and what have been the challenges in such research?

Ms. CACKLEY. We have found that the study that has already been referred to that the Urban Institute did on foreclosure mitigation has been the best result in terms of effectiveness, shown the most effectiveness of all of that type of counseling. The counseling—pre-purchase counseling, when we looked at the literature, we found a more mixed bag in terms of some studies that did find positive effects and other studies that it wasn't that they found negative effects, it was that you couldn't find a particular effect one way or the other, and that has to do with the challenges which is the study design is very difficult.

It is hard to get good data. It is hard to design a study in a way that allows you to identify the counseling as having an impact or not. You need to be able to have a control group. You need to be able to really identify the factors in a way that and control for them carefully. It is hard to do that, but it is not impossible. More studies are being done, and HUD is doing some of that work but it isn't done yet.

Chairwoman BIGGERT. Can you work with HUD to offer recommendations for improvement?

Ms. CACKLEY. We can certainly share with HUD our information on what we found in the literature, and we would be happy to do that.

Chairwoman BIGGERT. Okay. Thank you. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Thank you. Thank you for holding this hearing. I want to thank the witnesses for being here. What role is the housing and mortgage industry playing in financing or otherwise providing housing counseling? Should we be doing more to encourage private industry participation, housing counseling efforts?

Ms. FITZGERALD. Yes. It is—

Mr. SHERMAN. Okay. That is the answer to the second question. What is the answer to the first question? What are they doing now?

Ms. FITZGERALD. In a very inconsistent and ad hoc way as far as providing support, they do in certain areas. However, in general, they are not—despite conversations by many, many HUD intermediaries, they have not adopted a fee for service. We know that they save money, usually up to $20,000 to $35,000 if their property—if their loan doesn't go through foreclosure. Paying a counselor $500 or $700 to help make sure that happens is a very cheap proposition, but time and again, we haven't had any success there, and that would save the taxpayers money.

Mr. SHERMAN. Although, does the servicer have the option to do that on behalf of what might be dozens of people who own that particular home mortgage?

Ms. FITZGERALD. It would seem that for the relatively de minimis amount of money that we are talking about, their legal team could figure out that. We have evidence that shows that this makes a better loan, that there is lower redefault. They will pay someone $500 to just go find a customer, but they won't pay a counselor $500 to help the family work through a budget.

Mr. SHERMAN. You say they pay $500. I am talking about the mortgage servicer. It is not the lenders. The problem that we have here is you are describing what would be logical if you had one decision-maker acting for the benefit of the lender. The problem is we have 20 lenders owning a single mortgage and no one can act logically on their behalf. The servicer can't act on their behalf, only pursuant to the existing agreements that all 20 mortgage lenders who are participating in that mortgage have signed on to. We need in Congress to provide that servicers, regardless of what contract they have signed, have the right to spend the lender's money, in this case, as you say, $500 or $700 to provide this counseling if it makes sense.

Other than that, you basically are criticizing a ship for careening in the water illogically and harmfully. There is nobody with the power to steer it, as far as I understand. Do either of the witnesses have a comment on that?

Ms. FITZGERALD. I would just like to say the investors have said that the servicers can choose to pay for counseling but they have to do it out of the fees that the servicer is getting to manage that.

Mr. SHERMAN. We can—any one of us here in this room could pay for the servicing out of our own salaries, and a few of us make charitable contributions to do a little bit toward that, but to say that the servicer should go spend $700 of its money for an act designed to benefit the banks or the homeowner asks them to be charitable, and as you explained, part of the beneficiary of the charity goes to these big banks who are not on my personal charity list.

Let me move on. I would like to explore with some of our colleagues here whether the servicer should be able to do what you want them to do but to charge the banks for it. To say that it should come out of the servicing fee ignores the fact that their whole fee on that mortgage, absent the default, might be $500 for the year or less.

I understand, though, that research on the impact of housing counseling is under way at HUD and Fannie Mae. What do you believe would be the best ways to measure the impact of housing counseling on clients? Perhaps I could hear from either of the other two witnesses. Yes, Ms. Cackley?

Ms. CACKLEY. The best way to—could you, please—

Mr. SHERMAN. They are studying the effect of housing counseling. What do you believe would be the best measures of whether that housing counseling is doing a good job?

Ms. CACKLEY. The best measure would be if the study was designed to be a randomized sample so that one could effectively be able to tell—in other words, there are some people who get the counseling and some people who don't, and one can tell truly what the impact is of the counseling. The hardest part of doing this kind of research is being able to make those distinctions.

Mr. SHERMAN. So you would have to pick from a pool of 1,000 borrowers, 500 at random who would get free counseling, because if you just look at those who sign up for it, that is not randomized?

Ms. CACKLEY. That is right.

Mr. SHERMAN. I believe my time has expired. Thank you.

Chairwoman BIGGERT. Thank you. Mr. Hurt, you are recognized.

Mr. HURT. Thank you, Madam Chairwoman. I just had one question that I would love to hear Ms. Holston and Ms. Fitzgerald speak to if they can, and it may be something that is kind of hard for HUD to speak to if you are not at the ground level dealing with these counseling sessions. But I would love—as you know, we in this committee are struggling with the aftermath of—and as a country, of course, we are struggling with the aftermath of what happened in 2008 or what culminated in 2008.

I was wondering if you could speak to, from the perspective of one who deals with folks who have gotten themselves into a situation that has gone bad on them or could potentially have gone bad and they end up losing a tremendous amount of wealth as a consequence, if you could speak to the underwriting practices that you all have found in the last couple of years that maybe we need to be focused on in terms of making sure this doesn't happen again. I know it is probably beyond your jurisdiction, but I would love to have your comments on that.

Ms. FITZGERALD. At NeighborWorks for 30 years, we have always focused on sustainable mortgages for families, and our focus is on low- and moderate-income families, and we would say that 30-year fixed mortgages for most of those families that are underwritten at a DTI of 31 percent at the front end is a good mortgage. One of the things that happened certainly was front-end debt-to-income ratios that were way too high and families encouraged to be in that, and that is just not a sustainable solution, particularly, again, for a low- to moderate-income family. Another thing that happened is teaser ARMs, all of those kind of things that underwrote. So somebody got an ARM where the rate was 1.99 percent for the first year, and then bumped up 2 percent a year for 3 years. But the underwriting at that point only underwrote whether they could afford a 1.99 percent rate, not whether they could afford what the payment was going to be in 2 years, and most families don't see their incomes double or triple in a 2-year period.

So those are two really egregious things that happened that we certainly hope would never show up again.

Ms. HOLSTON. I would think that good, solid housing counseling, where a family is able to learn how to budget and understand what the responsibilities of homeownership are going to be. I know I am not speaking directly to your underwriting question, but a good understanding of what homeownership is about, how to qualify for a 30-year fixed-rate mortgage, and I think that is probably the basis for it.

Mr. HURT. Thank you, Mr. Chairman.

Chairwoman BIGGERT. Thank you, Mr. Hurt. The gentleman from Texas, Mr. Green, do you have—you have 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman, and thank you for allowing me to be part of the hearing. I thank the witnesses as well.

I am fortunate in that I represent a district that has the ballot printed in three different languages. It is in English, it is in Spanish, and it is in Vietnamese. I think there is a reality that we sometimes don't see with reference to the linguistic challenges that we have in our country, people who are lawfully here and who do need assistance, which is why I was proud to submit to the record the national capacity document entitled, "Role of Housing Counseling for Asian American and Pacific Islander Communities." This organization has done a stellar job. It is in 17 States, has more than 100 community-based organizations and individuals working with it, and they work to help the AA/PI community. I am in support of what they do and I am proud to submit their document for consideration.

I am also very much concerned about the loss of the $87.5 million. There are people who can benefit from this individually and families, but more importantly, the country benefits. Statistical information has been recorded indicating that we actually save money when we have people receiving this counseling, and my suspicion is that at some point, we would move into some sort of refinancing of many of the loans that are with the GSEs, Fannie and Freddie, through FHFA, and if this is done, many persons who could benefit from this and help the country benefit by virtue of not going into foreclosure because this counseling is done from the purchase through foreclosure mitigation, first-time home buyer, many of these people who could benefit, many persons who could benefit, will not benefit simply because of some of the linguistic challenges, and these organizations perform a meaningful function. This did not happen by accident that they are doing what they do. They have to prove and demonstrate that they would be a help. So I am supportive of what they do and wanted to make sure that we got this in the record.

With reference to the counseling, let me just ask a question. I know you don't have the empirical evidence today because a study is being performed, but can you give some anecdotal evidence—we take a lot of anecdotal evidence, and if you have anecdotal evidence, that has become very important to this committee, and I would ask that you share anecdotal evidence with the committee if you have such, and it doesn't matter to me who shares first.

Ms. FITZGERALD. In addition to the Urban Institute report we have spoken about, there is a—the Peter Zorn report from the early 2000s that Freddie Mac funded and is still probably one of the state-of-the-art reports, and that report showed—and it used Freddie Mac data—that there was a 34 percent reduction in delinquencies if there was counseling. So there has been evidence out there. The one thing that hasn't happened is this random blind study, but that is both incredibly expensive and very difficult.

On a local basis, we have organizations that have done very strong studies showing that counseling has brought an increase in credit scores and they look at a FICO score for pre-purchase education and counseling, and over 6 months or a year, there is an increase in the FICO score. So there are several studies and maybe Ms. Holston can speak more about them.

Ms. HOLSTON. The studies that we are conducting now will not be completed until next year, but preliminary findings from a re-

cent study by ABT Associates shows that the vast majority of homeowners who received foreclosure housing from HUD-approved counseling agencies, and that is 84 percent, continued to live in their homes 18 months later and more than two-thirds were current on their mortgages.

Mr. GREEN. Thank you, Madam Chairwoman. My time is about up, so I will yield back. Thank you.

Chairwoman BIGGERT. The gentleman yields back. I might note, Ms. Holston, that we really do want more tracking and comments on the discussion draft to address the oversight. And with that, I would recognize the gentleman from Illinois for 5 minutes.

Mr. DOLD. Thank you, Madam Chairwoman. Ms. Holston, this question for you to start out with, if I may.

Prioritizing funds obviously is something that I think is very important certainly for our government as we try to make them go and stretch further and that they get to the area of greatest need. Can you tell me how HUD right now is determining how the funds are being distributed? Are they being distributed—and I apologize if you covered this while I was voting—but are they being distributed on the greatest need first or is it more by geographic region first or how is it really being disseminated?

Ms. HOLSTON. Because we offer a full range of housing services—housing counseling services, we actually develop a NOFA, send it out, and it is on a geographic basis, but we also set aside funding. We have—this last year, we actually developed a NOFA and put $1 million for scam elimination. So, at this point, it is geographic primarily.

Mr. DOLD. Okay. I appreciate that. In your testimony and other data we read that since 2005, between 2005 and today, over 4.1 million households have received individual foreclosure prevention counseling and more than 150,000 have participated in homeowner default education workshops which I recognize represents a little over a third of the HUD housing counseling activity between 2005 and 2010. Do you know how many of these households were able to stay in their homes as a result of housing counseling?

Ms. HOLSTON. I know for those who received housing counseling in 2010—

Mr. DOLD. Okay.

Ms. HOLSTON. —84 percent continued to live in their homes—this is foreclosure counseling, 2005 forward. Just a moment. Let me get the exact figure.

Mr. DOLD. Not a problem.

Ms. HOLSTON. Could we get back to you, please, sir?

Mr. DOLD. Absolutely. Again, it—I believe, again, as we talked about in the opening statements it is important that we are able to reflect how well things are going. We want to make sure we can highlight these things so we can try to make sure that when it comes time for the appropriators to make some difficult decisions, which we know are not going to be received by many well, that we can highlight programs that are working and working well.

Can you give me just your own thoughts or if there are ones that you believe—and I will ask this both of Ms. Holston and Ms. Fitzgerald and then we will try to get down another one to make sure we are not leaving everybody out—in terms of the role that you be-

lieve that housing counseling should play in preventing another foreclosure crisis? Obviously, we are in the midst of a foreclosure crisis right now. What should the counseling do in order to try to prevent another foreclosure crisis from happening again?

Ms. HOLSTON. In many instances, a housing counselor is the best friend of a homeowner going into foreclosure. So a housing counselor can help that family secure a modification. They can provide comfort to them as they go forward, giving them options as to the best route to take. In terms of what we can do as housing counselors to avoid foreclosure or to avoid this mortgage crisis, better and more housing counseling earlier in the process, so some families will decide perhaps not to purchase, and others will know what the responsibilities of homeownership are before they purchase their home.

Mr. DOLD. Ms. Fitzgerald?

Ms. FITZGERALD. Absolutely. The best prevention against foreclosure is an educated consumer who understands the responsibilities they are getting into, can choose a mortgage product, and also understand the impacts of other credit that often gets offered to them after they become a homeowner and how to manage that. And we know that for the last 20 years, homeowners who have gone through that process early enough—not the day before the closing table—are more successful. If both spouses lose their jobs, obviously things in life happen that counseling can't prevent, but it makes them much more likely to be sustainable.

Ms. HOLSTON. One more thing. I also think it is important to have a third-party counselor so that you have a non-involved party in the deal, a counselor giving advice and guidance.

Mr. DOLD. And I appreciate that. I guess, obviously, we would love to be able to have some sort of counseling before they make any purchase decisions because they might not be able to, but in the reality, that might not be realistic. Ms. Fitzgerald, you talked just a moment ago about, the earlier the better. Do you know the percentage in terms of the counseling you see beforehand, how close to the actual purchase of a home? I know my time has expired.

Ms. FITZGERALD. Certainly in our network we recommend that it is at least 90 to 180 days beforehand, and our organizations work really hard to get that message out early to customers to do that, but I don't have a percentage.

Chairwoman BIGGERT. The gentleman's time has expired. The gentleman from North Carolina.

Mr. MCHENRY. Thank you, Chairwoman Biggert. Ms. Holston, does HUD use a competitive method to, or a merit-based system to award counseling funding?

Ms. HOLSTON. Yes, sir. We actually issue a NOFA and open it up for any HUD-approved housing counseling agency to compete. They submit their proposals. We rate and rank them. They have to receive a fundable score. And then based on the availability of funding and formula, it is determined how much their grant will be for.

Mr. MCHENRY. Okay. Ms. Fitzgerald, in terms of NeighborWorks, do you have metrics for success, in terms of your operations?

Ms. FITZGERALD. We do two different things. On the counseling side for NFMC when we have a competitive process, we had the Urban Institute give an independent evaluation which has shown that the program actually works. Again, 70 percent of the clients who enter are more likely to cure their foreclosure than clients who did not go through that program. We require reporting from the counseling agencies on a quarterly basis on what is happening with them.

Mr. MCHENRY. And so you determine if these intermediaries are actually spending the funds appropriately?

Ms. FITZGERALD. We do substantial on-site and off-site compliance. We do on site to those who receive 64—we do a risk rating system that we have had in place for 3 years, and in doing that, we made sure that we are going to the folks who get the largest amounts of funding, and we make sure that they are spending that money well in a variety of ways.

Mr. MCHENRY. So how do you determine success rates for these—for counseling, how do you determine success rates?

Ms. FITZGERALD. One of the challenges for foreclosure counselors is that because servicers take so long still to handle a situation, often 9 months—the most recent data shows that the average loan has been in foreclosure for 599 days. That means there are 599 days that the homeowner doesn't necessarily know what is happening, nor does the counselor. So the counselor is doing everything in their power to help solve that, but often they are at the mercy of servicers who are very backlogged.

But a success, they are always working to, if at all possible, get that homeowner a loan modification, and if they can't, then helping them exit in a good way for that family.

Mr. MCHENRY. Okay. So the eligibility of each applicant of the national foreclosure mitigation counseling is based on their approval by HUD, correct?

Ms. FITZGERALD. The eligible applicants, by statute, are HUD-approved intermediaries, State housing finance agencies, and NeighborWorks organizations.

Mr. MCHENRY. Okay. So how do you become HUD approved?

Ms. HOLSTON. Your question is how to become a HUD-approved housing counseling intermediary?

Mr. MCHENRY. Yes.

Ms. HOLSTON. I will get back to you in just a second.

Mr. MCHENRY. That is fine. So what is the average time and cost to become one of these intermediaries?

Ms. HOLSTON. Three to 6 months.

Mr. MCHENRY. And cost?

Ms. HOLSTON. And the cost is processing. There is no cost associated with it. There is no cost. They submit an application. We review the application and approve it or disprove it.

Mr. MCHENRY. Yes, time has cost. So if you have five staffers putting something together to fill this paperwork out, their salaries actually have a cost. That is what I am interested in.

Ms. HOLSTON. We will have to get back with you and compute that cost.

Mr. MCHENRY. Okay. I would be interested in that because we do want qualified counselors, but if the hurdle is so difficult to be-

come one of these intermediaries, then you need to look at your processes so that reasonable groups can go through this process.

So, with that, I am obviously concerned that we do have foreclosure counseling and it is done well, and the challenges are for determining success and that was to you, Ms. Fitzgerald. If you—no two families are the same. No two family situations are the same. No two foreclosures are exactly the same. So determining success in counseling is a challenge because you have some folks for whom there can be a remedy. Let's say they have a job. It is much easier for them to get something worked out than those who are not employed; is that right?

Ms. FITZGERALD. Typically, yes, unless there is a local program that would help those folks, yes.

Mr. MCHENRY. All right. Thank you.

Chairwoman BIGGERT. The gentleman's time has expired. I would like to thank the first panel for your insights and the information that you have given us, and I would 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 these witnesses and to place their responses in the record. Again, thank you so much, and we will now turn to Panel II. Thank you.

Welcome to the second panel: Mr. Peter H. Bell, president, National Reverse Mortgage Lenders Association; Ms. Candy Hill, senior vice president, social policy and government affairs, Catholic Charities USA; Ms. Debra Olson, interim executive director, DuPage Homeownership Center and DuPage County board member, on behalf of the National Association of Counties. And I would like to say a special welcome to Ms. Olson who is from the district and from the State of Illinois.

Ms. OLSON. Thank you for the invitation.

Chairwoman BIGGERT. And then Mr. Raul Raymundo, chief executive officer, The Resurrection Project.

Thank you all for being here, and again, for the panel, without objection, your written statements will be made a part of the record, and you will each be recognized for a 5-minute summary of your testimony. We will begin with you, Mr. Bell, and you are recognized for 5 minutes.

STATEMENT OF PETER H. BELL, PRESIDENT & CEO, NATIONAL REVERSE MORTGAGE LENDERS ASSOCIATION (NRMLA)

Mr. BELL. Madam Chairwoman and members of the subcommittee, thank you for convening this hearing to look into the important issue of housing counseling. This subcommittee, including members from both sides of the aisle, has been consistently sensitive to reverse mortgage issues and has continually taken steps to improve and enhance FHA's Home Equity Conversion Mortgage (HECM) program. For that, we are very appreciative, as are the 660,000 senior households who have utilized the HECM program.

I would like to focus today on one aspect of housing counseling that is a relatively small niche but a very important one for those who are affected. This is counseling for older homeowners who are

contemplating obtaining a reverse mortgage or for those older homeowners who already have a reverse mortgage and find themselves facing new financial challenges.

The equity accumulated in a home represents the largest component of personal wealth for many middle-class households. Typical retiree households might have one or two incomes from Social Security, a modest pension, perhaps some savings and low-yielding fixed-income instruments and nowadays perhaps a diminished 401(k) account. The equity they have built up in their home is by far their greatest asset and an important resource for funding their future.

Analyzing how a reverse mortgage might fit into the picture, however, is not an easy task, particularly for older homeowners who might not have been active in financial markets in recent years, for newly-widowed individuals whose loss of their spouse's Social Security creates financial insecurity, for seniors struggling to make ends meet, and for those trying to plan ahead to maximize their resources and sustain their financial independence.

When Congress enacted the HECM program back in the 1987 Housing Act, it recognized this and made mandatory counseling a critical component of the HECM program. Counseling is a very effective consumer safeguard, and as a result of that, we have seen very few problems with the HECM program over the years. Reverse mortgage counselors are employed by HUD-approved, community-based and nationally designated nonprofit housing and credit counseling organizations. Each individual counselor must be qualified by passing a HUD-administered exam and must meet continuing education requirements. The result of this has been the development of a robust network of committed counseling organizations and qualified individuals who deliver counseling through face-to-face sessions or via telephone, depending on each client's personal choice and mobility.

On top of the fact that all seniors considering a reverse mortgage must undergo counseling before they can actually even apply for a HECM, counseling agencies are required by HUD to perform such counseling at no cost whatsoever to any clients whose income is below 200 percent of the Federal poverty level. Fifty-six percent of HECM clients report one of the most major counseling agencies fall under this threshold.

So the issue we face today is, how will these mandates be met? How will counseling continue to be available to all HECM borrowers? We face a legal mandate to make sure the counseling is provided. We face a moral mandate to make sure that this counseling is equally available to those with more limited means who are unable to pay for it up front.

In the earliest years, the AARP foundation provided technical assistance and support for HECM counseling. In more recent years, their work has been taken over by NeighborWorks and the National Council on Aging. Each of these organizations has made a very significant contribution towards furthering the quality and availability of counseling by training, tracking, collecting and analyzing data, and providing technical education for the counseling community.

One particular area that has emerged in recent years, due to the economic downturn—and both NeighborWorks and MCOA are to be commended for stepping up to the plate on this issue—is providing remedial counseling to reverse mortgage borrowers who have had setbacks in their financial affairs and have had difficulties meeting their obligations to pay property taxes and insurance.

As a result of this remedial counseling, a high percentage of households facing this situation have been able to be put on a repayment plan to reimburse the lenders' advances, protecting FHA from possible payouts for claims while preserving the homeowners' ability to continue living in their home, a win-win solution for all involved. All in all, the cost of providing this type of HECM counseling for those who cannot afford it is small. The cost of not providing it would be very great.

Thank you for the opportunity to appear here today. I would be pleased to answer any questions.

[The prepared statement of Mr. Bell can be found on page 42 of the appendix.]

Chairwoman BIGGERT. Thank you, Mr. Bell.

Ms. Hill, you are recognized for 5 minutes.

STATEMENT OF CANDY HILL, SENIOR VICE PRESIDENT, SOCIAL POLICY AND GOVERNMENT AFFAIRS, CATHOLIC CHARITIES USA

Ms. HILL. Good afternoon, Chairwoman Biggert, and thank you to the subcommittee for having us here today.

I am here representing Catholic Charities USA where I am the senior vice president for social policy and government affairs. Housing has always been a primary area of service delivery for Catholic Charities throughout its 100-year history, and is a major concern presently in our work to serve those in need and reduce poverty in America. We very much appreciate this opportunity to come before the subcommittee and provide input and data on the critical importance of housing counseling based on our experience as a national housing counseling intermediary for more than the past 10 years. With 38 of our agencies serving 26,429 individuals during the grant cycle of 2009–2010, we want to underscore the value of these services to so many in these challenging economic times.

The important role that housing counseling services has played and continues to play in ensuring a stable housing market and safe, affordable housing for those who receive these services is immeasurable. These services are comprehensive and should not be narrowly directed only to foreclosure prevention. In fact, housing counseling assists with rapid rehousing prevents renters from losing their homes and addresses homelessness. It is essential that these services, which support individuals and families in need, be preserved. In fact, if it had not been for housing counseling programs, thousands more would have been vulnerable in the housing crisis.

At the same time, it is incumbent on those who administer these funds to ensure the efficiency and effectiveness of these services without undue or unnecessary administrative burdens so that more funds go directly to those who need the services. For example, in Elmira, New York, the housing counseling program operates a

first-time home buyer program. Four hundred families have purchased their first home through this program which is a partnership between Catholic Charities and the City of Elmira. The program consists of intensive pre-purchase education and support. Successful participants complete 9 hours of some kind of education and workshop and approximately 7 to 10 hours of one-on-one counseling. Their housing counseling services are tailored to the clients' needs, not necessarily their wants.

The success of the first-time home buyer program in part is attributed to the extensive pre- and post-education and support given by housing counselors, and the foreclosure rate for homes bought by home buyers in this program is under 3 percent.

Stable housing is the goal for all those that we serve in our network. Housing counseling is an essential element of our housing services. Catholic Charities' programs uniquely reach those who are challenged by poverty and often turn to us as a last resort. However, I want to mention that the population that we see currently is not just low income. More and more middle-income individuals and families, including significant numbers of military families, are approaching Catholic Charities' agencies to receive housing counseling services.

Catholic Charities continues to work for innovative ways to help people secure and maintain housing with the ultimate goal of helping individuals and families to achieve self-sufficiency. I highlight that for you that in my written testimony; I have reported on a number of local Catholic Charities housing counseling programs and the innovation and success that they have had.

As you well know, funding for HUD's housing counseling assistance program was eliminated in the HUD Fiscal Year 2011 budget appropriation. However, funding for the National Foreclosure Mitigation Program was maintained at $65 million. While Catholic Charities USA recognizes that NeighborWorks America's NFMC program does important work related to foreclosure intervention, and in fact, 11 Catholic Charities agencies received grants from NeighborWorks, it is important that we highlight the fact that there is a difference between the two in that one is a program that addresses specifically foreclosure intervention and mitigation, while the other is a more holistic approach to housing counseling services which are crucial as it provides much-needed counseling to millions of families and seniors.

With that, I would like to make a few recommendations to this committee. We urge you to make affordable and accessible comprehensive housing a priority and encourage local governments and private interests to do the same; invest in this critical housing counseling program and support comprehensive and innovative programs that allow communities the flexibility to meet local housing concerns; restore the $87.5 million in funding to the housing counseling program; and finally, ensure that all Federal programs, including these we discuss today, are effective and efficient, not overly burdened with layers of administrative oversight, but effectively overseen so that funding and services meet the needs of those individuals these programs have been designed to serve.

Thank you.

[The prepared statement of Ms. Hill can be found on page 81 of the appendix.]

Chairwoman BIGGERT. Thank you, Ms. Hill.

Ms. Olson, you are recognized for 5 minutes.

STATEMENT OF DEBRA OLSON, INTERIM EXECUTIVE DIRECTOR, DUPAGE HOMEOWNERSHIP CENTER, AND BOARD MEMBER, DUPAGE COUNTY, ILLINOIS, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES (NACo)

Ms. OLSON. Thank you, Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee. I appreciate the special invitation today.

My name is Debra Olson and I am a DuPage County, Illinois, board member and a member of the National Association of Counties (NACo) community and economic development steering committee. I thank you for the opportunity to testify at this important oversight hearing. It is my privilege to represent NACo today, and we appreciate Chairwoman Biggert holding a hearing on housing counseling programs.

NACo, the only national organization representing America's 3,068 counties, supports housing counseling programs which provide vital services to county residents, particularly in this stalled housing market and difficult economy. Low property values caused by foreclosed homes have led to a smaller tax base and budget shortfalls.

HUD-certified counseling agencies help to ensure that county residents are getting accurate information and effective services, which can mean the difference between homeowners saving or losing their homes. These services are primarily offered free of charge, thanks in part to Federal funding. Empowering residents with information makes the process better for all involved. Counties know these services have prevented foreclosures and helped homeowners make better decisions in a process that can be confusing and overwhelming.

This year, NACo published an issue brief on foreclosure, "The Fall and Rise of Neighborhoods in Counties Across the Country." The brief notes the importance of having homeowners who are potentially facing foreclosure contact HUD-approved housing counseling agencies for assistance in working with their lender.

In NACo's June 2008 survey of large urban counties, approximately 96 percent of the county officials responding noted an increase in home foreclosures during that year. Approximately 36 percent reported a 50 percent or more increase in foreclosures. Fifty-six percent of the officials reported a decline in housing values as a result of foreclosures, and 52 percent are experiencing revenue shortfalls, a result of either foreclosures or declining home values.

DuPage County has experienced similar problems. Furthermore, according to RealtyTrac, Illinois has the 5th highest foreclosure rate in the United States, and DuPage County foreclosure rates, as a ratio of homeownership, rank 8 out of 102 counties. In DuPage, over 8,500 houses are in some stage of foreclosure.

DuPage County has, for years, partnered with the DuPage Homeownership Center, DHOC, the only HUD-certified housing

counseling agency providing comprehensive services in the county. DHOC has a national reputation for excellence. We have received numerous awards, and our innovative programs have been profiled in six national best practices publications, and as the volunteer interim executive director, I can assure you we believe in, and welcome, strong accountability.

DHOC provided services to over 2,500 families in Fiscal Year 2011. Of those, 833 households were in some state of default, many more in imminent threat of default. Though DHOC has received NeighborWorks grants, as well as HUD grants, NeighborWorks round six is not guaranteed and the significant cut in HUD funding is jeopardizing DHOC services for these thousands of DuPage residents.

Perhaps now more than ever, there is a need for comprehensive, federally-funded housing counseling services. More than 85 percent of DHOC's foreclosure clients report they never had any home buyer education. Pre-purchase counseling and reverse mortgage counseling have been defunded, and local agencies may be forced to charge cash poor seniors for these services which are required by law.

Foreclosure prevention counseling has proven to be highly cost-effective. According to a report in Mortgage News Daily, the average cost of a foreclosure is $77,000 while the average cost of foreclosure prevention is $3,300. DHOC helped 279 families prevent foreclosure in Fiscal Year 2011 alone, saving lenders, governments, communities and homeowners in crisis over $20 million. Hundreds more DHOC clients are in process.

HUD's housing counseling programs provide accessibility to financial education for all, creating more responsible renters and homeowners. HUD's housing counseling programs impose standards of certification on participating agencies resulting in professional, accurate, reliable information for renters, home buyers, and families in crisis.

HUD requires accountability measures such as independent third party audits, biennial on-site performance reviews, and uniform reporting of performance outcomes. HUD's competitive grant process ensures participating organizations will meet and exceed mandated goals or lose funding.

DuPage County applauds strict enforcement of the standards of certification and accountability measures to give Congress and consumers confidence that their tax dollars are being spent wisely. We support requiring stringent compliance with national industry standards for home buyer education and counseling for grant awards.

As a government official myself who looks for the most effective and efficient use of tax dollars, the cost of housing counseling is a fraction of the cost of a foreclosure. Defunding housing counseling is counterproductive to long-term resolution of the economic problems we face today and prevention of recurrence in the future. I implore you to improve HUD's programs, not gut them.

Thank you for this opportunity and I welcome any questions.

[The prepared statement of Ms. Olson can be found on page 104 of the appendix.]

Chairwoman BIGGERT. Thank you.

Mr. Raymundo, you are recognized for 5 minutes.

STATEMENT OF RAUL I. RAYMUNDO, CO-FOUNDER AND CHIEF EXECUTIVE OFFICER, THE RESURRECTION PROJECT

Mr. RAYMUNDO. Buenos tardes. Good afternoon. I am honored to be here.

The Resurrection Project is a community-based nonprofit serving primarily Latino neighbors in Chicago's west side and the City and suburbs. The Resurrection Project is also a proud affiliate of National Council of La Raza and the National Association of Latino Community Asset Builders, for which I am the current board chair.

Thank you, Chairwoman Biggert and Congressman Gutierrez, for allowing me to be here to talk to you about the impact of HUD counseling support that we have received over the past few years.

In 1990, The Resurrection Project began with a $30,000 seed capital investment from area parishes. Today, we have leveraged more than $200 million in reinvestment through our comprehensive community development efforts, a cornerstone of which is housing and financial literacy counseling. As a HUD-approved agency, we empower families with the knowledge about the right way to purchase a home and arm them against predatory lenders.

Last year, The Resurrection Project counselors served over 2,700 families through pre-purchase, foreclosure, and basic financial literacy education. Many of these families successfully purchased a home, improved their credit scores, and opened savings accounts. The families we serve on the southwest side of the City and western suburbs have been hit hard by this great recession. Communities of colors have lost far more wealth in this great recession than the general public as a result of banking and what used to be a secure investment, owning part of the American dream through homeownership.

The counseling support we provide to families is often the only thing that helps with the soft landing that many of these families are experiencing. When they are foreclosed on, it does not only impact their finances but also the entire psyche of the family. I cannot imagine how much worse things could have been for our communities had we not received counseling support over the past 5 years.

In a survey of HUD-certified counseling agencies conducted by Housing Action Illinois, several agencies indicated that cuts would force them to lay off staff or see fewer clients. Two agencies anticipated they would be forced to shut down completely. We know that counseling alone does not revitalize neighborhoods, but again, it is a cornerstone for comprehensive revitalization efforts.

Currently, there is an incredible excess of inventory of foreclosed housing units in the market. Many of the strategies being considered across the country to reduce this inventory is supply driven, REO disposition of properties, short sales, and donations. The key to reducing this inventory should be demand driven as well. In other words, we need well-prepared buyers, well-qualified buyers, and well-educated buyers. It is shortsighted to think that preparing the next generation of home buyers will happen overnight. It is going to take some time to build this foundation, not just repair the old.

Let me give you an example of the foundation I am speaking about. Orelia Abeja, a single mother of four, came to The Resurrection Project in 2000 with a dream of owning a home, but settled into one of our affordable apartments to give her the time and space she needed to save money. Over the next 10 years, Ms. Abeja earned a bachelor's degree and eventually a master's and became a schoolteacher. In 2006, she began receiving one-on-one counseling to help realize her dream of owning a home. After a few years of budgeting, saving, and learning the ins and outs of homeownership, Ms. Abeja purchased a single family home, and in 2009, she and her family moved into a 3-bedroom home.

The Resurrection Project and similar HUD-approved counseling agencies across the Chicagoland area continue to help families like the Abejas work to manage steps towards sustainable homeownership and a better life.

Without this funding, our neighborhoods will suffer. Home buyers like Ms. Abeja will not be able to receive the type of high-quality individualized education to help prepare them for sustainable homeownership and prevent future foreclosures. HUD counseling is crucial right now in order to jump start a demand market to prepare families like the Abejas, often first-time home buyers to buy a home. This demand will, in turn, spur local economies which will create much-need jobs, which will, in turn, help revitalize local neighborhoods.

Therefore, I urge Congress to restore the housing counseling programs funding to the Fiscal Year 2010 level of $88 million.

Secondly, and finally, I urge Congress to invest more in counseling agencies that are culturally and linguistically sensitive to communities that have been hit hardest by this great recession and this housing crisis.

[The prepared statement of Mr. Raymundo can be found on page 114 of the appendix.]

Chairwoman BIGGERT. Thank you.

We will now move to questions and members will have 5 minutes to ask the questions and we will start with that.

This question is really for everyone. While helping families, especially those who are in foreclosure counseling, what are the greatest challenges that counselors face? Just one or two from each of you, so we get your top challenges that what you see. Some of the Panel I witnesses mentioned problems with servicers, for example. We will start with you, Mr. Raymundo.

Mr. RAYMUNDO. Yes. I think that continues to be a serious problem, that servicers are taking a very long time. We heard earlier in the panel the length of time that it takes them to respond to families, to the counselors, and I think there needs to be some kind of legislation that forces, if you will, servicers to act as one instead of many in terms of providing mitigation as quickly as possible to our families.

Chairwoman BIGGERT. Thank you. Ms. Olson?

Ms. OLSON. I would agree with the assessment that working with servicers is perhaps the most difficult part. Furthermore, I would say that scams have definitely been a problem, and one of the problems that nonprofit agencies have is that we don't have a lot of dollars for public relations (PR). We offer these highly professional

certified counseling services, but don't have the dollars for PR in order to get the word out there that we offer these services. So scammers who have lots of money to put toward PR have their name out there and promise to help. I think that is another problem that we face as an agency that would be helpful to—more PR dollars would be helpful, I think.

Chairman BIGGERT. Ms. Hill?

Ms. HILL. I would echo that servicers are a great challenge for us, but I would also say that the—

Chairman BIGGERT. Could you pull the microphone closer to you?

Ms. HILL. —continued economic downturn, so in families where unemployment is an issue or a loss of job, where it has been over the course of more than a year, makes it much more difficult to mitigate a situation where foreclosure is imminent because of the lack of funds to actually pay the mortgage. So I would say both the servicers and the continued economic downturn for this length of time are a great challenge for us.

Chairman BIGGERT. Thank you.

Mr. Bell?

Mr. BELL. Yes. Our clientele is slightly different because they are the elderly, and there is a different set of issues there. But when it comes to mitigation counseling for the seniors who have problems, one of the challenges has been that the servicers possess personal nonpublic financial information that would be very helpful to the counselors, but because of privacy laws, it is challenging for them to be able to share that with the counselor, which would help make a much more informed counseling session.

We have been working on some efforts to overcome those, but it would be helpful if the Congress would look at that and perhaps engineer some opportunities within the privacy laws to allow the servicers to make such information available to the counselors.

Chairwoman BIGGERT. Mr. Bell, what are the losses associated with reverse mortgages to FHA over the last 5 years?

Mr. BELL. Historically to date, the program has been run on a revenue-neutral basis. The way this has been maintained is that each year in budgeting for the program, FHA and then OMB project out how the book of business might perform based on its projections of future home values, and then they have made adjustments accordingly.

Over the past couple of years, they have reduced the benefit that seniors can get out of a reverse mortgage. Two years ago, they reduced the amount by 10 percent across-the-board and, for the current Fiscal Year, from 1 to 4 percent, depending on the age of the borrower. Also for the current Fiscal Year, they increased the mortgage insurance premium, the annual mortgage insurance premium, that is paid to keep the program on a revenue-neutral basis. So, to date, there has not been any real loss from the HECM program.

Chairwoman BIGGERT. There was a story not too long ago about some seniors who had gotten a reverse mortgage, and they were given a lump sum instead of like a monthly or whatever, and they spent it all. Then, of course, they didn't have the money to pay the property taxes or anything. Is this happening still, or is this something that has changed?

Mr. BELL. A borrower under the HECM program has the choice of having a fixed-rate mortgage or a variable-rate mortgage, and they have the choice of receiving the money all at once as a lump sum or taking it out in fixed monthly payments or setting it up as a line of credit and drawing it down as needed.

The fixed rate requires a full draw. The reason for that is that a lender can put out the money today because he knows the cost of funds if somebody takes it all at once. If they want to take it out a little bit at a time, they must choose a variable rate. By and large, in the last couple of years, with the financial uncertainty, seniors have overwhelmingly chosen the full draw fixed rate to have the security of the fixed rate. So that is in fact going on in more than half of the reverse mortgages that are made.

In a large percentage of those cases, the other reason for taking out the full amount up front is because they are paying off existing indebtedness on the property, and they require all those funds for it. However, if a senior does not need all the money up front, they are well advised to consider the variable rate, which gives them the other options. Unfortunately, that is not often what they choose, but that is why the counseling once again becomes so critical, to help them make that determination.

Chairwoman BIGGERT. So the housing counseling should really make sure that they understand taking all the money out at once is not going to work?

Mr. BELL. Or that they have to guard their money and use it judiciously.

Chairwoman BIGGERT. I think the reverse mortgages are an issue that maybe we want to consider looking into with another hearing or something. So I appreciate your being here.

Mr. BELL. We would welcome the opportunity.

Chairwoman BIGGERT. I yield to Mr. Gutierrez for 5 minutes.

Mr. GUTIERREZ. Thank you so much. First of all, I want to welcome my friend and advocate for housing, for people who really, without his advocacy, wouldn't have an opportunity to be part of the American dream.

So I wanted to thank Raul Raymundo for taking up our invitation to come, and for—I was on the city council when you were—your resurrection more than 2 decades ago. So thank you for all of the wonderful work, Raul, that you have done, and I am really delighted that you are here, because I think you add a magnificent and very timely voice to what we are doing.

So, tell me, Mr. Raymundo, the relationship between HUD funding, lack of HUD funding and what that might do in terms of what you do. I know you represent a broader group of people who are just like you and that do the kind of work. Tell me what your fear is. Tell me what we should know.

Mr. RAYMUNDO. I think we are facing—the foreclosure crisis has been ongoing for a few years now. And as I mentioned in my remarks, we continue to have increase in these units out there. I think if we really are going to turn around the devastation that is going on in these communities as a result of boarded-up buildings and crime that is happening in these communities as a result of these buildings, we need to figure out how to stimulate a demand side of the market.

I think what has worked for us, and I believe what has worked for many counseling agencies, is preparing people and well educating them. This is not going to happen overnight. In our experience, it often takes 2 to 3 years to make sure that there is a well-qualified, well-prepared buyer to become a homeowner. It is not going to happen overnight, particularly as a result of the crisis that people are facing with lack of jobs, lower wages, and so forth.

So, it might take a little longer to be ready to become a homeowner, but once they are ready and they do become a homeowner, it is going to have other ripple effects in our community, such as building up our communities and creating a better economy in our communities. It is something we have to look at differently. It is not short term. We have to be looking at this longer term as well.

Mr. GUTIERREZ. So what kinds of moneys does the Federal Government provide—

Mr. RAYMUNDO. It would be devastating if HUD cuts their funding or future funding. As my colleagues mentioned as well, it is not just about the one-on-one counseling; it is getting the word out. It is making sure that people know that there are opportunities in today's market, but also to prevent them from going down the wrong path, as they have.

We are competing daily against predators who are better resourced than housing counselors who are out there promoting on a weekly basis. In our community, as you know, Congressman, they do this through radio shows, sponsoring the whole half-hour, a whole hour of radio show, inviting people to come to them, and they will assist them, often charging them hundreds if not thousands of dollars for assistance that HUD counselors provide absolutely free and do a better job of this.

So that is the market and the environment we are competing with. Resources to be proactive in informing people, marketing to them, to do it the right way, is very important, as well as one-on-one counseling.

Mr. GUTIERREZ. I just want to say to you, Mr. Raymundo, and the thousands of others like you, which I know we have, like Mrs. Olson and others, who really are out there to give a benefit to the consumers, and to watch out for their interests; I want to thank you for the wonderful work and contribution you make toward the realization of the American dream of homeownership or just getting a decent place to rent.

I think, Madam Chairwoman, it is interesting, because I was listening to Mr. Bell's response to the question, and it just seems to me that it might be a good idea to take a look at it, because I had this concept, because I guess I am not old enough to be thinking about a reverse mortgage, so I just kind of watch it on TV, and it always came across to me that you kind of get this income, you don't lose your home, you get to live in it until you die. Anybody raise your hand if you don't think this is the way you got it. I watch the commercials.

But then it sounds like the explanation can be pretty starkly different, right? I am wondering, what if the roof leaks and you don't pay the taxes, a host of things. You have a medical emergency; you lose your house.

So, I think that housing counseling is very, very important. I think we should look at it. Because you don't have to be—even I was walking the other day through the airport, and they said, oh, you know, get this credit card, 25,000 miles and you get a free airline ticket somewhere. Has anybody ever really tried to get a free airline ticket with 25,000 miles? They got them for 60, for 90.

Then I signed up for a credit card for one of the major hotels. I said, oh, great. They said, you have accumulated enough for three nights. When I went to try to get one of the nights, it was at the lousiest hotel in their chain—no, I am not making this up. You try it. You are going to say that Luis was right.

So just think about, what it is you perceive to be, right, that warranty on your car. It is like, oh, those things weren't under the warranty. Only the little light bulb was under warranty. And if it happens to me on such simple things as a reward program, on frequent flier miles, on my—imagine how important, because those things, I just won't take the hotel, right?

But this can have very grave consequences beyond what hotel or what trip you might have to cancel or how much you are going to have to deal with your car and not let it turn into a clunker. So I think it might be advisable, we will talk more later. But I want to thank all of the panelists. Thank you so much.

Chairwoman BIGGERT. Remember, there is no free lunch.

Mr. Hurt is recognized for 5 minutes.

Mr. HURT. Thank you, Madam Chairwoman.

I thank each of you all for joining us this afternoon.

One of the things that I was asking about in the earlier panel, and I think many of you were here, but I was wondering, do the programs that HUD and NeighborWorks coordinate and operate, are they able to target those most in need? It sounds to me that there really is not a mechanism to do that, that the targeting, to use Ms. Holston's word, was really more geographic by nature. And that makes sense to me. Obviously, that would be the easiest way to do it. But is there a way to target those most in need?

The reason, of course, I ask that is because we do have limited resources, and our ability to fund these programs is going to be more and more difficult as we face, as I said in my opening statement, as we face the prospect of balancing a budget that is $1.5 trillion out of whack. So it seems to me that it is incumbent on all of us to try to figure out how to help the most in need.

Does that make sense to you? And if it does, what can you tell us or what thoughts might you have on how to reach those who are most in need. I would just like to hear from each, if you have any thoughts on that, starting with Mr. Bell, if that is okay?

Mr. BELL. Yes, Congressman. In the HECM counseling, it is very definitely targeted to need, because the counseling agencies, many of them charge for the counseling, and they use the HUD funds to provide the counseling to those people who are under 200 percent of the Federal poverty level. So the HUD funding is targeted to the lowest income.

The other place the HUD funding gets used is people get the counseling before they apply. You cannot apply for an FHA-insured reverse mortgage until you have been out, met with the counselor, completed the counseling and return to the lender with a coun-

seling certificate issued by the counselor. What happens sometimes is people go out for the counseling—

Mr. HURT. Which is different than foreclosure prevention, I guess. Right?

Mr. BELL. Yes. Right. People go out for the counseling, and they decide it is not for them as a result of the counseling, so, therefore, the counseling agency has incurred this cost but does not have a client who will get the loan and will ultimately pay for it. So the HUD funding is used for that. Those are the two spots: for those below 200 percent of the Federal poverty level; and for those where the client does not proceed with the HECM loan.

Mr. HURT. Got it. Thank you.

Ms. Hill, do you have any thoughts on that?

Ms. HILL. I do. A couple of things that I just want to highlight. One of the comments when we were preparing to testify here from our housing counseling agencies was to underscore that we have a number of underserved communities and particularly in rural communities from housing counseling programs.

So as a national intermediary, we actually go through an RFP process with our own Catholic Charities agency where they both have to demonstrate their capacity to do the work as well as the compelling need in their local community. So one way for us under the NOFA is to actually look at our network and then have them make the compelling argument from their local community that they need the funds to do this particular work, because it is a finite pot of money.

So that is the way in which we address it. We do believe, however, that there needs to be more attention given to underserved communities, especially rural communities that need the services.

Mr. HURT. Thank you. Ms. Olson?

Ms. OLSON. Thank you for your question, Congressman.

It really depends in my view on how you define need. Do you define need based on the number of foreclosed homes in a geographic area; based on the number of foreclosed homes as a percentage of homeownership; based on unemployment rates, because with unemployment, you have people who won't be able to pay their mortgages; based on poverty levels; based on percentage of drop in home values, so you have homeowners who are underwater. There are so many factors that go into determining why and where foreclosure happens—

Mr. HURT. Is there a mechanism that you know of that HUD or NeighborWorks uses or could use, is there a mechanism in place that you go to, to make that assessment?

Ms. OLSON. When we apply for grants, when local agencies apply for grants to HUD, we are required to demonstrate need, both in narrative and in data. So it is HUD that has been making that determination of what the need is. And I understand it has been on geographic.

But I think requiring agencies to demonstrate need in their applications is going to help any agency, funding agency, then prioritize where those funds are going to go.

Other than that, I honestly would have to think about that and provide you with a written answer, because that is something that I am very happy to think about and provide you my thoughts on.

Mr. HURT. Thank you. Mr. Raymundo?

Mr. RAYMUNDO. Yes, I would agree with Ms. Olson.

I think it depends. You don't necessarily want to just focus on need, because communities that are adjacent have different problems. One community that is adjacent to another may have a greater need. But it doesn't do very much for that community that is doing okay to also fall apart. And that is important to recognize, because we don't want to necessarily penalize communities that are improving themselves, and at the same time, we don't want to necessarily not include communities in need or in the greatest need.

So I think what exactly we are defining as need is something that we have to look at. But we need to invest again moving forward. Some communities are ready to improve themselves more than others because they are ready. But given the economy, it won't take long for them to fall back.

Mr. HURT. Got it. Thank you. Thank you for your answers.

Chairwoman BIGGERT. Thank you, Mr. Hurt.

Just one quick issue. I think, Ms. Hill, you mentioned that one of the challenges was PR and getting the word out. Is that correct?

Ms. OLSON. Actually, I think we both did.

Chairwoman BIGGERT. You both did. Good. In the testimony from Ms. Fitzgerald of NeighborWorks, she talks about the fact that they have reached millions of homeowners in their Ad Council campaign which she says was primarily financed by private sector funds from NeighborWorks America's partners, but this campaign has been ranked in the top 10 of all Ad Council campaigns, and it reached millions of household its and garnered more than $165 million in donated media.

I wonder if any of you had been benefited by this ad campaign, had you been part of that?

Ms. OLSON. I am sure that there are clients that DHOC has seen that came because they have seen that. We do look at the data as to how people found out about our services. Really, the majority of people find out about our services either through recommendations from our county government or another agency that they are going to because they are in need. So it is more word of mouth or referral.

Also our Web site—we are actually find out that IT, using the Internet is the most effective way to let people know that you have services available. It is just a matter of funding that kind of IT development within an agency. Word of mouth from friends and neighbors, people share at their churches that they are in trouble. That would be the third way.

So, really, I would put the NeighborWorks ad campaign down lower in terms of our agency.

Chairwoman BIGGERT. But NeighborWorks didn't reach out to you or other counties to be part of the campaign or have your—DuPage County or whatever—mentioned in that?

Ms. OLSON. Not to my knowledge.

Chairwoman BIGGERT. Or Catholic Charities?

Ms. HILL. Not to my knowledge, either.

Chairwoman BIGGERT. And the other one was also a scam alert that was—to have an anti-rescue scam public education campaign, and that was done in 2009. Were either of you involved in that?

It was actually partnered with a lot of other organizations, like HUD, Treasury, FTC, the Department of Justice, Fannie Mae and Freddie Mac. Does anybody know anything about that? FDIC, State attorneys general?

Ms. OLSON. We applied for the HUD funding round, the most recent one that included mortgage scam assistance, but we have not been asked to participate in an ad campaign like that. Actually, the Attorney General of Illinois has a Web site that we refer people to when they have been scammed or a local legal service, but no ad campaign. That would be great.

Chairwoman BIGGERT. Okay. I think there is a lot there.

With that, the Chair notes that members may have additional questions for this panel which they may wish to submit in writing, and without objection, the hearing record will remain open for 30 days for members to submit their questions to the witnesses and to place your responses in the record.

I really appreciate all of you being here. This has been a great panel. Thank you so much for coming here and really giving us the information that we need as we move forward on these issues.

With that, this hearing is adjourned.

[Whereupon, at 4:17 p.m., the hearing was adjourned.]

A P P E N D I X

September 14, 2011

Testimony

of

Peter H. Bell, President & CEO

National Reverse Mortgage Lenders Association

before the

Subcommittee on Insurance, Housing & Community Opportunity

House Financial Services Committee

September 14, 2011

2128 Rayburn House Office Building

Madam Chairwoman and Members of the Subcommittee:

Thank you for convening this hearing to look into the important issue of housing counseling. I am here today in my capacity as President & CEO of the National Reverse Mortgage Lenders Association (NRMLA), a trade association of over 300 companies involved in the origination, funding and servicing of reverse mortgages. Our organization has been serving the reverse mortgage industry as a policy advocate and educational resource since 1997. We also provide information about reverse mortgages to consumers and members of the press.

NRMLA member companies are responsible for over 90% of the reverse mortgages made in the United States. All NRMLA member companies commit themselves to our Code of Ethics & Professional Responsibility. A core value of our organization is our commitment to independent third-party counseling as an integral part of the reverse mortgage origination process.

This subcommittee, including members from both sides of the aisle, has been consistently sensitive to reverse mortgage issues and has continually taken steps to improve and enhance FHA's Home Equity Conversion Mortgage (HECM) program. For that, we are very appreciative, as are the 660,000 senior households who have utilized the HECM program.

As you know, a few months ago, Congress passed legislation that deleted funding that would have supported housing counseling for the federal fiscal year beginning on October 1, 2011, just over two weeks from now.

I would like to focus today on one aspect of the housing counseling activities that are affected by this, a relatively small niche in the whole scheme of things, but a very important item for those who are affected. That is pre-application counseling for older homeowners who are contemplating obtaining a HECM reverse mortgage.

The issues surrounding reverse mortgage counseling bring several key questions into consideration.

The most striking is simply how do we finance our longevity? With life carrying on for decades beyond our earning years, we must manage assets and resources to sustain ourselves longer. This requires the strategic use of home equity as a means of financial support.

Housing wealth, the equity accumulated in a home, to many American families, represents the largest component of personal wealth. Typical retiree households might have one or two incomes from Social Security, a modest pension and/or limited income from low-yielding fixed-income instruments, and, perhaps, a diminished 401(k) account. The equity they have built up in their home is, by far, their greatest asset, an important resource for funding their future.

Analyzing how a reverse mortgage might fit into the picture and learning how to assess various options available is not an easy task -- particularly for older homeowners who might not have been in the financial markets for a while, for newly widowed individuals whose loss of their spouse's Social Security creates financial insecurity, for seniors struggling to make ends meet or those trying to plan ahead to maximize their resources and sustain their financial independence.

An earlier Congress recognized this and made mandatory counseling a critical aspect of the program when it first authorized the FHA Home Equity Conversion Mortgage (HECM) in the 1987 Housing & Community Development Act.

Counseling has become a hallmark of the HECM program. It is a very effective consumer safeguard and its impact can be seen in the limited and isolated number of instances where there has been evidence of fraud or elder financial abuse within the HECM program. NRMLA regularly surveys Attorneys General offices in all states, Divisions of Banks, and Departments of Consumer and Elderly Affairs, and all report a very low incidence of complaints about reverse mortgages. I would suggest that the mandatory counseling is a significant contributor to the integrity of the HECM program.

The opportunity for every prospective reverse mortgage client to consult with an independent, professional reverse mortgage counselor prior to formally submitting an application for a reverse mortgage is a critical step for helping consumers to make a sound decision. The reverse mortgage counselors are employed by HUD-approved, community-based and nationally-designated nonprofit housing and credit counseling organizations, and each individual counselor must be qualified by passing a HUD-administered exam and meeting continuing education requirements.

The counseling covers several key aspects as delineated in the statute that created the HECM program. First of all, Sec. 255 (d)(2)(b) of the National Housing Act requires that:

> "To be eligible for insurance under this section, a mortgage shall have been executed by a mortgagor who has received adequate counseling as provided in subsection (f), by an independent third party that is not, either directly or indirectly, associated with or compensated by a party involved in originating or servicing the mortgage, funding the loan underlying the mortgage or engaged in the sale of annuities, investments, long-term care insurance or any other type of insurance or financial product."

Sec. 255 (f) further requires:

> "The Secretary shall provide or cause to be provided adequate counseling for the mortgagor, as described in Subsection (d)(2)(b). Such counseling shall be provided by counselors that meet qualification standards and follow uniform counseling protocols.

"The protocols shall require a qualified counselor to discuss with each mortgagor information which shall include --

1.) Options other than a home equity conversion mortgage that are available to the homeowner, including housing, social service, health and financial options;
2.) Other home equity conversion options that are or may become available to the homeowner, such as sale-leaseback financing, deferred payment loans, and property tax deferral;
3.) The financial implications of entering into a home equity conversion mortgage
4.) A disclosure that a home equity conversion mortgage might have tax consequences, affect eligibility for assistance under Federal and State programs, and have an impact on the estate and heirs of the homeowner; and
5.) Any other information that the Secretary may require. "

The result of this has been the development of a robust network of committed counseling organizations and qualified individuals to deliver the HECM counseling, either in face-to-face sessions or via telephone, depending on each client's personal choice and mobility. This counseling network has ably served the needs of older homeowners considering HECM loans and has grown in capacity and sophistication as the decisions that go into evaluating a HECM get ever more complex.

On top of the fact that ALL seniors considering a reverse mortgage must undergo counseling before they can formally make an application for a HECM, counseling agencies are required by HUD to perform such counseling at no cost for clients whose incomes are below 200% of the Federal poverty level, which is under $28,000 per year for a two-person household, a level that many senior homeowners living on Social Security fall under. According to one of the most active HECM counseling agencies, Credibility in Atlanta, a HUD counseling intermediary serving seniors on a nationwide basis, 56% of their counseling clients fall under this threshold.

So, the issue we face today is how will these mandates be met? How will counseling continue to be available to all HECM borrowers? We face a legal mandate to make sure that adequate counseling is provided to all prospective HECM borrowers. We face a moral mandate to make sure that this counseling is equally available to those with more limited means. We don't want to preclude deserving older Americans from accessing a HECM that might help them re-organize their finances to achieve sustainability in their homes, simply because they can't afford the upfront fees associated with HECM counseling.

The robust network of HECM counselors that has evolved has been served by various organizations over time. In earlier years, the AARP Foundation provided technical assistance and educational support for the HECM counseling network. The

foundation helped develop the exam that HECM counselors must pass and provided training and capacity-building assistance to counseling organizations.

In more recent years, the functions previously performed by the AARP Foundation have been taken over by other organizations, including NeighborWorks and the National Council on Aging. Each of these organizations has made a significant contribution towards furthering the quality and availability of counseling thru training, tracking, collecting and analyzing data, and providing technical education and information exchange opportunities to counseling organizations and individual counselors.

One particular area that has emerged, and both NeighborWorks and NCOA are to be commended for stepping up to the plate to deal with the issue, is providing remedial counseling to reverse mortgage borrowers who have had setbacks in their financial affairs and have had difficulties meeting their obligations to pay property taxes and insurance. Failure to pay these so-called "property charges" represents a technical default under the HECM program.

When a borrower falls into technical default, the loan servicer is obligated to pay such charges on their behalf to protect the FHA insurance fund and begin working with the borrower to bring the account current. HECM counselors play an integral role in providing remedial assistance and advice for borrowers in technical default.

As a result of these remedial counseling services, a high percentage of households facing this situation have been able to be put on a repayment plan to reimburse the lender's advances, protecting FHA from possible payouts for claims, while preserving the homeowner's ability to continue living in their home – a win-win solution for all involved – and one that requires the active participation of qualified HECM counselors.

All in all, the cost of providing this type of HECM counseling for those who cannot afford it is small. The cost of not providing it could be great.

If Congress were to restore funding for housing counseling for the new fiscal year, all stakeholders including Housing Counseling Agencies (HCAs), national intermediaries and HUD would have to work in concert to expeditiously get funding out to the field as quickly as possible. Many HCAs have already run out of their prior year's funding and are being forced to curtail their HECM counseling activities.

To minimize any hiatus in HECM counseling, we would recommend that no changes in distribution channels for funding be made at the present time, but instead that opportunities for streamlining counseling support be studied for future implementation. This would allow the established network of exam-qualified HECM counselors at HUD-approved agencies to continue to serve our senior population of prospective HECM borrowers, as well as those current borrowers trying to work their way our of a technical default.

Standards for housing counseling criteria, in the HECM arena, are very specific and stringent. They are the product of an ongoing collaborative effort among a varied group of stakeholders including HUD, senior advocacy groups, gerontological experts, housing counseling professionals and experienced lenders. They have proven to be very effective to date and have been considerably enhanced with the introduction of updated HECM counseling protocols a little over a year ago.

Training is always an area where more can only be helpful. Providing a reliable stream of funding to counseling agencies, particularly those facing the mandate to provide counseling at no charge to a significant percentage of their clients, is essential for assuring ongoing training of personnel and development of systems to collect data that can be analyzed to make counseling and underwriting even more effective over time. In fact, the counseling process, both from collecting data upfront and assessing outcomes over time, provides the best opportunity to truly ascertain how and when a HECM is appropriate for any prospective borrower.

FHA, the housing counseling network and the reverse mortgage industry have been working collaboratively to gain further insight on how to improve the safety and delivery of HECMs. The counseling, both upfront before loan application and remedial counseling are critical components of the HECM process. It is important to make sure funding is there to keep this intact.

NRMLA urges the members of this Subcommittee to continue to support adequate funding for HECM counseling, to work with the appropriators to provide the funding and to work with HUD, NeighborWorks and other counseling organizations to distribute counseling funds as expeditiously as possible to minimize any possible disruption in the availability of this importance service.

Thank you for the opportunity to appear before this Subcommittee. I would be pleased to answer any questions.

Professional Biography for Peter Bell

Peter Bell is the President & CEO of National Reverse Mortgage Lenders Association (NRMLA), a Washington, D.C.-based trade association representing lenders, investors and loan servicers engaged in the origination, funding, administration and marketing of reverse mortgages, as well as vendors who provide services to those core members of the Association. NRMLA's primary functions include providing policy analysis and advocacy, public affairs outreach, professional education and networking opportunities for the reverse mortgage industry. The Association has developed and sponsors the Certified Reverse Mortgage Professional (CRMP) designation for individuals involved in the reverse mortgage business. Its Ethics Committee fulfills an important responsibility ensuring that all member companies conduct their business in accordance with a stringent Code Of Ethics & Professional Responsibility. Mr. Bell has served as NRMLA's CEO and chief ethics officer since its inception in 1996.

Mr. Bell has a long, deep background as a housing policy analyst in Washington for the past 35 years. In addition to his work on reverse mortgage and retirement finance issues, he is a nationally recognized authority on affordable housing development and finance issues and is frequently called upon to testify before Congress or advise federal agencies on housing matters. Mr. Bell serves on several civic and industry boards including the Board of Directors for Homes for America, an Annapolis, MD-based nonprofit developer of affordable housing active in the Mid-Atlantic region, the Editorial Advisory Board of Housing & Development Reporter, and advisory boards for US Bank Community Development Corporation and The Related Companies Community Development Corporation.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Insurance, Housing and Community Opportunity, Committee on Financial Services, House of Representatives

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HOMEOWNERSHIP COUNSELING

Although Research Suggests Some Benefits, Implementation and Evaluation Challenges Exist

Statement of Alicia Puente Cackley, Director
Financial Markets and Community Investment

U.S. Government Accountability Office
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ACCOUNTABILITY * INTEGRITY * RELIABILITY

GAO-11-925T

GAO
Accountability * Integrity * Reliability
Highlights

Highlights of GAO-11-925T, a testimony before the Subcommittee on Insurance, Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Homeownership counseling can help consumers learn about buying a home and give them tools to deal with setbacks that could keep them from making timely mortgage payments. The Department of Housing and Urban Development (HUD) approves and provides grants to housing counseling agencies and has also implemented a requirement that borrowers seeking federally insured reverse mortgages through the Home Equity Conversion Mortgage (HECM) program receive counseling before taking out a HECM. The U.S. Department of the Treasury (Treasury) has also implemented a counseling requirement as part of its mortgage modification efforts under the Home Affordable Modification Program (HAMP). This statement discusses (1) what research suggests about the effectiveness of homeownership counseling and the challenges of conducting such research, (2) shortcomings that prior GAO work found in federal agencies' implementation of homeownership counseling requirements, and (3) the status of efforts to establish an Office of Housing Counseling within HUD.

In preparing this statement, GAO relied on its past work on homeownership counseling, including a review of research and interviews with federal agency staff on implementing and evaluating counseling programs.

GAO has made recommendations to HUD and Treasury to improve oversight and evaluation of their homeownership counseling requirements. HUD implemented the recommendations, while Treasury said that implementation would be too burdensome.

View GAO-11-925T. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

September 14, 2011

HOMEOWNERSHIP COUNSELING

Although Research Suggests Some Benefits, Implementation and Evaluation Challenges Exist

What GAO Found

The body of literature on homeownership counseling does not provide conclusive findings on the impact of all types of counseling. Recent research on foreclosure mitigation counseling—which helps financially distressed homeowners who are delinquent on payments—suggests that it can help homeowners avoid foreclosure and prevent them from lapsing back into default. Findings on prepurchase counseling—which helps potential homebuyers learn about buying a home and explains the financial responsibilities of homeownership—are less clear. One study concluded that such counseling lowered the default rate for new homeowners, but other studies showed no effect. Efforts to measure the impact of homeownership counseling have been hampered by a lack of data, as well as by challenges in designing studies and creating effective performance measures. Further studies are under way at HUD and Fannie Mae that are designed to overcome some of these limitations.

Prior GAO work identified shortcomings in the implementation of homeownership counseling requirements for two federal programs. A 2009 study of the HECM program found that HUD's internal controls did not ensure that counselors were complying with program requirements. HUD later made improvements to the HECM program to address GAO's recommendations. Another GAO study from 2009 found that Treasury did not effectively track whether borrowers required to seek counseling under HAMP actually received it or whether counseling reduced the rate of redefaults. Treasury officials said that they had not implemented a monitoring process because it would be too burdensome for Treasury and mortgage servicers. They also did not plan to assess the effectiveness of counseling in limiting redefaults, in part because they believed that the benefits of counseling on the performance of borrowers with high debt burdens were well documented. GAO continues to believe that monitoring and assessment would provide valuable information on whether the counseling requirement is having its intended effect.

HUD is establishing a new Office of Housing Counseling, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). According to HUD, the agency is developing a reorganization plan but is unable to estimate when it will be submitted to Congress. Budget constraints could affect the new counseling office. Although the Dodd-Frank Act authorized $45 million per year through fiscal year 2012 for the operations of the new office, HUD has not received appropriations for this purpose. In addition, appropriations for fiscal year 2011 eliminated HUD's housing counseling assistance funds, which are primarily grant funds for approved counseling agencies.

Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee:

I am pleased to be here to participate in today's hearing on housing counseling. As you know, housing counseling can help consumers determine whether and when to purchase a home, how to manage a mortgage, and how to deal with setbacks that could limit their ability to make timely mortgage payments. This subcommittee's focus on such assistance is critical, given that the number of homes in foreclosure and of homeowners in financial distress remains at historically high levels. In the second quarter of 2011, more than 3.4 million home mortgages were 90 or more days delinquent or in the foreclosure process, and estimates indicate that more than one in five mortgage borrowers owe more on their mortgages than their homes are worth. The Department of Housing and Urban Development (HUD) approves and provides grants to housing counseling agencies. It has also implemented a requirement that federally insured reverse mortgage borrowers participating in the Home Equity Conversion Mortgage (HECM) program receive counseling before getting their mortgages.[1] The U.S. Department of the Treasury (Treasury) has also implemented a counseling requirement as part of its mortgage modification efforts under the Home Affordable Modification Program (HAMP).[2]

My statement today is based on recent work we have conducted related to housing counseling and will discuss (1) what research suggests about the effectiveness of homeownership counseling and the challenges of conducting such research, (2) shortcomings that our prior work found in federal agencies' implementation of homeownership counseling requirements, and (3) the status of efforts to establish an Office of Housing Counseling within HUD.[3]

[1]Reverse mortgages are a type of loan against home equity available to seniors. Through its HECM program, HUD insures reverse mortgages, which are made by private lenders, and oversees the agencies that provide mandatory counseling to prospective HECM borrowers.

[2]A major purpose of HAMP is to modify the first-lien mortgages of homeowners in danger of foreclosure. Under the first-lien program, borrowers with high levels of household debt must agree to obtain counseling.

[3]A list of related GAO products on which this statement is based can be found at the end of this testimony.

In preparing the reports on which this testimony is based, we reviewed research and conducted interviews with appropriate researchers and agency staff on the impact of homeownership education and counseling, HUD's controls over reverse mortgage counseling, HUD's plans for creating an Office of Housing Counseling, Treasury's processes and documentation for the Financial Education and Counseling Pilot Program, and Treasury's implementation of a counseling requirement under HAMP.[4] We also interviewed selected homeownership counseling providers and mortgage market researchers as well as HUD and Treasury officials.

We performed the work for the reports underlying this testimony as part of our ongoing oversight responsibilities from April 2008 through July 2011. We performed our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Homeownership counseling refers to prepurchase and postpurchase counseling of homeowners and is a subset of housing counseling, which can also include assistance to renters and homeless populations. Prepurchase counseling generally refers to counseling for potential homebuyers to learn about whether and when to buy a home and how to manage a mortgage, budget for repairs, and fulfill other financial responsibilities of being a homeowner. Postpurchase counseling primarily refers to foreclosure mitigation counseling, which focuses on helping financially distressed homeowners avoid foreclosure by working with lenders to cure mortgage delinquency but can also include subjects such as home maintenance. Counseling can take place in person, over the telephone, via a self-study computer module, or with a workbook, and can

[4]Treasury's Financial Education and Counseling Pilot Program, authorized pursuant to Section 1132 of the Housing and Economic Recovery Act of 2008 (Pub. L. No. 110-289), awards grants to eligible organizations, including HUD-approved housing counseling agencies, to provide financial education and counseling services to prospective homebuyers.

vary in length from a single session to several sessions spread over a period of weeks or months.

The federal government funds homeownership counseling through a number of programs at HUD, Treasury, the Department of Defense, and the Department of Veterans Affairs. Congress has also provided targeted support for foreclosure mitigation counseling. For example, in recent years, Congress has appropriated funds to the National Foreclosure Mitigation Counseling (NFMC) Program, which was designed to rapidly expand the availability of foreclosure mitigation counseling. NFMC is administered by NeighborWorks® America, a government-chartered, nonprofit corporation with a national network of affiliated organizations, which competitively distributes NFMC funds to other recipients.

Findings from the Limited Research Available on Homeownership Counseling Are Mixed

The limited body of literature on homeownership counseling does not provide conclusive findings on the impact of all types of homeownership counseling. Some studies suggest that foreclosure mitigation counseling can be effective in improving mortgage outcomes (e.g., remaining current on mortgage payments versus defaulting or losing the home to foreclosure). However, findings on prepurchase counseling are less clear. Research on homeownership counseling is limited in part because of data limitations and other challenges.

Although Research on Foreclosure Mitigation Counseling Suggests Benefits, Results on Other Types of Counseling Are Mixed

Recent research on foreclosure mitigation counseling suggests that it can help struggling mortgage borrowers avoid foreclosure and prevent them from lapsing back into default, especially if the counseling occurs early in the foreclosure process. A 2010 evaluation of NFMC found that homeowners who received counseling under the program were more likely to receive loan modifications and remain current on their mortgages after counseling, compared with a group of non-NFMC borrowers with similar observable characteristics. Specifically, the authors estimated that borrowers who received NFMC counseling were 1.7 times more likely to "cure" their foreclosure (i.e., be removed from the foreclosure process by their mortgage servicer) than borrowers who did not receive NFMC counseling. The authors also estimated that loan modifications received by NFMC clients in the first 2 years of the program resulted in monthly mortgage payments that averaged $267 less than they would have paid without the program's help. Additionally, the study found that in 2008,

borrowers who received NFMC counseling before a loan modification had an estimated 53 percent better chance of bringing their mortgages current than borrowers who did not receive premodification counseling.[5] Other studies of foreclosure prevention counseling have also found that the timing of the counseling was critical and that the earlier in the foreclosure process borrowers received counseling, the more likely they were to have a positive outcome.[6]

The findings on the impact of prepurchase counseling are less clear. For example, a 2001 study analyzed data on the performance of about 40,000 mortgages made under a Freddie Mac program for low- to moderate-income homebuyers, a large majority of whom received prepurchase counseling.[7] The authors compared the loan performance of program participants who received different types of prepurchase counseling to the loan performance of participants who did not. The study found that borrowers who underwent individual and classroom counseling were 34 and 26 percent less likely, respectively, to become 90 days delinquent on their mortgages than similar borrowers who did not undergo counseling.[8] However, subsequent studies have found either no effect on loan performance or effects that were potentially attributable to other factors. For example, a 2008 study of about 2,700 mortgage borrowers found that prepurchase counseling had no effect on a borrower's propensity to default.[9] A 2009 study examined a legislated pilot program

[5]Neil S. Mayer, Peter A. Tatian, Kenneth Temkin, and Charles A. Calhoun, *National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Efforts, September 2010 Update,* prepared for NeighborWorks® America (Washington, D.C., Urban Institute, 2010). The study focused on the approximately 800,000 borrowers who received NFMC counseling from January 2008 through December 2009 and a comparison sample of non-NFMC-counseled homeowners.

[6]Lei Ding, Roberto G. Quercia, and Janneke Ratcliffe, "Post-purchase Counseling and Default Resolution among Low- and Moderate- Income Borrowers," *Journal of Real Estate Research,* vol. 30, no. 3 (2008).

[7]Abdighani Hirad and Peter M. Zorn, *A Little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling,* Joint Center for Housing Studies of Harvard University, Low Income Homeownership Working Paper Series 01.4 (Cambridge, Mass., August 2001).

[8]Hirad and Zorn, *A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling.*

[9]Roberto Quercia and Jonathan S. Spader, "Does Homeownership Counseling Affect the Prepayment and Default Behavior of Affordable Mortgage Borrowers?" *Journal of Policy Analysis and Management,* vol. 27, no. 2 (2008).

in 10 Illinois ZIP codes that mandated prepurchase counseling for mortgage applicants whose credit scores were relatively low or who chose higher-risk mortgage products such as interest-only loans. Although the authors found that mortgage default rates for the counseled low-credit score borrowers were lower than those for a comparison group, the authors attributed this result primarily to lenders tightening their screening of borrowers in response to stricter regulatory oversight.[10]

Additional empirical research on the impact of housing counseling is under way at HUD and Fannie Mae. HUD's Office of Policy Development and Research issued a broad overview of the housing counseling industry in 2008 and is currently conducting two studies on mortgage outcomes related to foreclosure mitigation and prepurchase counseling programs.[11] The foreclosure mitigation study will follow 880 individuals and evaluate mortgage outcomes 12 months after counseling ends. HUD officials said that they expected the study to be published in 2012. The prepurchase counseling study will track 1,500 to 2,000 individuals who receive different types of counseling (one-on-one, group, Internet, or telephone) or no counseling. HUD officials said that they expected data collection for this study to begin in 2012. In addition, Fannie Mae is conducting both prepurchase and postpurchase counseling studies. According to Fannie Mae officials, the prepurchase study will track over a 2-year period the loan performance of borrowers who received counseling prior to purchasing a home. The postpurchase study will evaluate the impact of telephone counseling on existing homeowners who receive loan modifications through HAMP.

[10]Sumit Agarwal, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff, *Do Financial Counseling Mandates Improve Mortgage Choice and Performance? Evidence from a Legislative Experiment*, working paper 2009-07 (Federal Reserve Board of Chicago, 2009).

[11]Christopher E. Herbert, Jennifer Turnham, and Christopher N. Rodger, *The State of the Housing Counseling Industry*, Abt Associates for the Department of Housing and Urban Development (Washington, D.C., September 2008).

Measuring the Effectiveness of Homeownership Counseling Presents Challenges

Conducting research on homeownership counseling outcomes is challenging for a variety of reasons, and limitations in the methodologies used in existing studies make it difficult to generalize the results or compare outcomes across various studies. According to housing counseling researchers we spoke with, the primary barrier in the study of housing counseling is a lack of data. Long-term data on counseling outcomes are limited because of the difficulty of tracking counseling recipients after the counseling ends. In addition, many counseling agencies are hesitant to request sensitive personal information from clients. One researcher we spoke with told us that the ability to track loan performance over time is critical to an effective assessment of housing counseling programs. For this reason, some counseling researchers have begun working with lenders and mortgage servicers to access information on the payment status (e.g., current or delinquent) of counseling recipients and the long-term outcomes of their mortgages. Another limitation of the current research is the lack of experimental research design, which is considered the best approach for evaluating differences in an intervention such as counseling and comparing it to no intervention.[12] We did not identify any published studies that evaluated homeownership counseling using an experimental design. For this and other reasons, researchers have been hesitant to draw firm conclusions from the published literature. For example, differences among counseling programs—in terms of curriculum, intervention method (e.g., one-on-one, telephone, or classroom), level of intervention (e.g., intensity or amount of time spent counseling), and outcome measures—make it difficult to draw broader conclusions about the impact of housing counseling.

Establishing meaningful measures of the impact of homeownership counseling programs is also a significant challenge. Our recent evaluation of Treasury's Financial Education and Counseling Pilot Program

[12]Experimental design involves random assignment of subjects to treatment and control groups to isolate the impact of the treatment. In the context of prepurchase homeownership counseling, one group of prospective homebuyers would receive counseling (treatment group) and the other would not (control group). Experimental design can mitigate the problem of "selection bias." Individuals who receive housing counseling, either on their own or by enrolling in a research study, represent a "self-selected" population. Therefore, they may be systematically different than individuals who do not seek counseling, and this potential bias makes generalizing research results for the self-selected population problematic.

illustrates this point.[13] As a condition of receiving grant funds under the program, grantees are required to report on the results of five performance goals within 6 months of disbursement and annually thereafter. We found that some grantees were calculating the results of their impact measures in erroneous or misleading ways or were not fully capturing meaningful information, potentially limiting the usefulness of these data for assessing program effectiveness. For example, one grantee inaccurately calculated the average percentage increase in prospective homebuyer savings. According to the grantee's calculation, a participant who began a financial education and counseling program with no savings but subsequently saved $500 was shown to have a 50,000 percent increase in savings. In fact, a percentage increase cannot be meaningfully calculated from zero savings because any percentage increase on zero is infinite. We also identified alternatives to the methods of calculating impact measures that the grantees were using. For example, we noted that instead of just measuring changes in clients' savings, it might be advantageous to focus on net savings—that is, savings minus debt—to provide a more complete picture of an individual's financial situation.

Treasury officials told us that they had discussed the specific impact measures with each grantee in the pilot program but had not provided guidance on how to calculate the results. We recommended that Treasury provide additional guidance or technical assistance to the grantees on how to accurately and meaningfully calculate the results of the impact measures. Treasury stated that it concurred with the observations in our report and plans to provide grantees with supplemental guidance on impact measures before the next reporting deadline.

[13]GAO, *Financial Education and Counseling Program*, GAO-11-737R (Washington, D.C.: July 27, 2011).

Our Work Has Identified Shortcomings in the Implementation of Some Homeownership Counseling Requirements

In prior work, we found shortcomings in HUD's and Treasury's implementation of homeownership counseling requirements for the HECM and HAMP programs. In 2009, we evaluated HUD's implementation of the counseling requirements associated with the HECM program and found that HUD's internal controls did not provide reasonable assurance that counseling providers were complying with the program requirements.[14] GAO's undercover participation in 15 HECM counseling sessions found that while the counselors generally conveyed accurate and useful information, none of the counselors covered all of the topics required by HUD, and some overstated the length of the sessions in HUD records. For example, 7 of the 15 counselors did not discuss required information about alternatives to HECMs, and 6 of the 15 counselors overstated the length of the session. HUD had several internal controls designed to help ensure that counselors conveyed required information to prospective HECM borrowers but had not tested the effectiveness of these controls and lacked procedures to help ensure that records of counseling sessions were accurate. Because of these weaknesses, some prospective borrowers may not have received all of the information necessary to make informed decisions about obtaining a HECM.

We recommended specific changes that HUD should make to improve the effectiveness of the agency's internal controls so that they provided reasonable assurance of compliance with HECM counseling requirements. Since our report, HUD has implemented our recommendations by creating additional internal controls and guidance for counselors on how to comply with program responsibilities, as well as developing a "mystery shopping" initiative to better evaluate compliance among HECM counselors.

In 2009, we also evaluated Treasury's implementation of the foreclosure mitigation counseling requirements of HAMP.[15] We found that Treasury did not plan to systematically track borrowers with high debt burdens, who were required to obtain foreclosure mitigation counseling, to determine

[14]GAO, *Reverse Mortgages: Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers*, GAO-09-606 (Washington, D.C.: June 29, 2009).

[15]GAO, *Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable*, GAO-09-837 (Washington, D.C.: July 23, 2009).

whether they actually received counseling or if it was effective. Treasury officials told us that they made this decision because they did not want to deny a loan modification to borrowers who successfully made modified payments during a 90-day trial period but did not obtain counseling. Treasury also did not want to delay modifications under the program until servicers had arranged to coordinate with counselors to track whether borrowers obtained counseling. We noted that without knowing whether borrowers who were required to obtain counseling actually did so or evaluating the performance of counseled and noncounseled borrowers, Treasury would not know whether the requirement was meeting its purpose of reducing redefaults among borrowers with high debt burdens.

We recommended in 2009 that Treasury consider methods of monitoring whether borrowers required to receive housing counseling as part of HAMP modifications did receive it and seek to determine whether the counseling did limit redefaults. Treasury staff said in 2010 that they had considered options for monitoring the proportion of borrowers that obtained counseling but had determined that implementing a monitoring process would be too burdensome for Treasury and mortgage servicers. Additionally, Treasury officials said they had no plans to assess the effectiveness of counseling in limiting redefaults, in part because they believed that the benefits of counseling on the performance of borrowers with high debt burdens were well documented. We continue to believe that monitoring the extent to which borrowers receive counseling and the redefault rates for counseled and noncounseled borrowers would provide valuable information about whether the counseling requirement is having its intended effect.

HUD is Creating a New Office for Its Housing Counseling Activities, but Funding Is Uncertain

To enhance consumer protections for homebuyers and tenants, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires HUD to establish an Office of Housing Counseling.[16] This office is mandated to perform a number of functions related to homeownership and rental housing counseling, including establishing housing counseling requirements, standards, and performance measures; certifying individual housing counselors; conducting housing counseling research; and performing public outreach. The office is also mandated to continue HUD's role in providing financial assistance to HUD-approved

[16]Dodd-Frank Act, sec. 1442 (codified at 42 U.S.C. sec. 3533(g)).

counseling agencies in order to encourage successful counseling programs and help ensure that counseling is available in underserved areas.

Currently, HUD's housing counseling program operates out of the Program Support Division within the Office of Single-Family Housing.[17] HUD supports housing counseling through the division in two ways. First, it approves and monitors housing counseling agencies that meet HUD criteria and makes information about these agencies available to consumers on HUD's website. According to HUD officials, as of August 2011, about 2,700 counseling agencies were HUD-approved. Second, HUD annually awards competitive grants to approved agencies to help them carry out their counseling efforts. HUD's housing counseling program provides funding for the full spectrum of housing counseling, including prepurchase counseling, foreclosure mitigation counseling, rental housing counseling, reverse mortgage counseling for seniors, and homeless assistance counseling. HUD-approved agencies report to HUD on the number and type of service interactions (e.g., counseling sessions) they have with clients. Self-reported data on homeownership counseling conducted by these agencies indicate that service interactions for foreclosure mitigation counseling rose from about 171,000 in 2006 to more than 1.4 million in 2010, while service interactions for prepurchase counseling declined from about 372,000 to about 245,000 over the same period.[18]

Besides these two main functions, the Program Support Division and other HUD staff perform other counseling-related activities, some of which are similar to the functions the Dodd-Frank Act requires of the new counseling office. For example, HUD has developed standards and protocols for reverse mortgage counseling, certifies individual reverse mortgage counselors, is conducting research on the impact of

[17]The Program Support Division has staff in HUD headquarters in Washington, D.C., and in HUD's four homeownership centers located in Atlanta, Georgia; Denver, Colorado; Philadelphia, Pennsylvania; and Santa Ana, California.

[18]Counseling agencies may have multiple service interactions with the same client. Some of the HUD-approved counseling agencies that report service interaction data do not receive HUD funds, and those that do receive HUD grants also rely on other funding sources, according to HUD officials. As a result, the service interaction data do not represent solely the counseling services provided with HUD funds.

homeownership counseling, and recently launched a public awareness campaign on loan modification scams.

A working group within HUD is in the process of developing a plan for the new counseling office. According to HUD officials, the primary change needed to create the new office is the reassignment of staff who spend time on housing counseling activities but also have other responsibilities. In July 2011, we reported that HUD expected the new office to consist of approximately 160 full-time staff members, but HUD has indicated more recently that the office may be considerably smaller. In order to move forward with the establishment of the office and the appointment of a Director of Housing Counseling, HUD must submit a reorganization plan to Congress. According to a HUD official, HUD is still developing its proposal for the new counseling office and is unable to estimate when it will be submitted to Congress.

HUD officials told us that the new counseling office would have advantages over their current organizational structure. They indicated that having dedicated resources, staff, and leadership would raise the profile of the housing counseling function and help the agency build a more robust capacity in this area. One official noted that getting sufficient information technology resources for housing counseling had been difficult and said that a separate counseling office might be able to compete more effectively with other parts of the agency for these resources. HUD officials also indicated that the new office would be organized to help the agency better anticipate and respond to changing counseling needs and improve interaction with counseling industry stakeholders. For example, the officials said that the new office would be organized around functional areas such as policy, training, and oversight, making it easier for industry stakeholders to direct their questions or concerns to the appropriate HUD staff. Additionally, HUD officials told us that the office would work with the Bureau of Consumer Financial Protection's Office of Financial Education to coordinate the housing counseling activities of both organizations.

Mortgage industry participants, consumer groups, and housing researchers we spoke with were supportive of the new housing counseling office and believed that it offered opportunities to enhance HUD's role in the housing counseling arena. For example, some of the consumer groups stated that the office could help standardize counseling practices and publicize best practices, further elevating and professionalizing the counseling industry. In addition, representatives from several of the consumer groups and researchers with whom we met

stated that the office could help enhance coordination among counseling agencies by providing opportunities for improved training, networking, and communication. Furthermore, they said that the office could potentially support improved data collection for research on the impact of housing counseling.

Budget constraints could affect the establishment of the new counseling office and reduce the scale of HUD's housing counseling activities. Although the Dodd-Frank Act authorized $45 million per year through 2012 for the operations of the new office, HUD had not received any appropriations for this purpose as of August 2011. In addition, appropriations for fiscal year 2011 eliminated HUD's housing counseling assistance funds, which are primarily grant funds for approved counseling agencies.[19] HUD officials said they planned to award and obligate about $10 million in unspent fiscal year 2010 counseling assistance funds in the 2011 fiscal year. However, the officials said that some counseling agencies had already reduced the level of services they provided due to the elimination of the fiscal year 2011 funds. Housing counseling groups we spoke with said that the cuts in HUD funding, which they use to leverage private funds, ultimately could result in fewer counseling services for prospective and existing homeowners unless private funds make up the difference.

Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

Contact and Staff Acknowledgments

For further information on this testimony, please contact me at (202) 512-8678 or cackleya@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Steve Westley, Assistant Director; Randall Fasnacht; Alise Nacson; and Emily Chalmers.

[19]In fiscal year 2010, HUD was appropriated $88 million for housing counseling assistance. The President's budget for fiscal year 2012 requests $88 million for HUD housing counseling assistance.

Related GAO Products

Financial Education and Counseling Program. GAO-11-737R. Washington, D.C.: July 27, 2011.

Mortgage Reform: Potential Impacts of Provisions in the Dodd-Frank Act on Homebuyers and the Mortgage Market. GAO-11-656. Washington, D.C.: July 19, 2011.

Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable. GAO-09-837. Washington, D.C.: July 23, 2009.

Reverse Mortgages: Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers. GAO-09-606. Washington, D.C.: June 29, 2009.

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Testimony of

Eileen Fitzgerald
Chief Executive Officer
NeighborWorks America

(Established as the Neighborhood Reinvestment Corporation, Public Law 95-557)

Before the

House Committee on Financial Services

Subcommittee on Insurance, Housing and Community Opportunity

United States House of Representatives

September 14, 2011

Statement of

Eileen Fitzgerald
Chief Executive Officer
Neighborhood Reinvestment Corporation
(Doing business as NeighborWorks® America)

Before the
House Financial Services Subcommittee on
Insurance, Housing and Community Opportunity

September 14, 2011

Good afternoon Chairwoman Biggert, Ranking Member Gutierrez and Members of the subcommittee. Thank you for inviting me to talk with you today about the great value of the HUD housing counseling and NeighborWorks America's National Foreclosure Mitigation Counseling program.

By way of background, NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. As you know, the Corporation receives a federal appropriation from the Transportation, Housing and Urban Development, and Related Agencies Appropriations Subcommittee.

My testimony today will address NeighborWorks America, the need for a broad scope of housing counseling programs, and NeighborWorks America's role as administrator of the National Foreclosure Mitigation Counseling program (NFMC).

NeighborWorks America is the nation's original community/public/private partnership model, with locally-driven community development, innovative solutions, and efficiency as its hallmarks. Today, the Corporation's affiliated NeighborWorks network includes more than 235 community-based nonprofit organizations, serving more than 4,500 communities across the United States -- in all 50 states, the District of Columbia, and the Commonwealth of Puerto Rico. NeighborWorks organizations operate in our nation's largest cities and in some of its smallest rural communities.

NeighborWorks America's primary mission is to expand affordable housing opportunities, both rental and homeownership, and to strengthen urban, suburban and rural communities across America, working through its network of local NeighborWorks organizations.

NeighborWorks provides grants, technical assistance, tools and services to the NeighborWorks network. In addition, NeighborWorks supports a much larger set of affordable housing organizations and agencies through its training, information sharing and technology and evaluation tools. NeighborWorks is also one of the largest nonprofit training organizations for affordable housing and community development. In FY 2010, NeighborWorks trained more than 12,000 housing and community development professionals and board members from more than 3,200 agencies and organizations.

NeighborWorks America is nimble and efficient in the design and deployment of its tools and services to promote maximum effectiveness of taxpayer resources. The Corporation's business model demands responsiveness to emerging issues, trends, and regulatory and legislative changes. NeighborWorks America's flexible grant resources enable NeighborWorks organizations to tackle local challenges in ways that are appropriate for their markets. In some cases, that involves production of new rental housing or preservation of existing units. In other cases, it may involve owner-occupied rehabilitation or new homeownership opportunities. In every case, the local organizations substantially leverage the NeighborWorks investment.

In FY 2010 alone:

- NeighborWorks America and its network assisted 252,000 families with their housing needs, including creating 16,700 new homeowners, owning and managing 80,000 units of rental housing, and counseling 105,00 families on home-buying and homeownership preservation.

- NeighborWorks America and its network supported nearly $4 billion in direct investment in America's communities, primarily from the private sector.

- The work of NeighborWorks America and its affiliates supported an estimated 22,600 jobs.

And, since its inception in 2008, the NFMC program has counseled more than 1.2 million homeowners facing foreclosure.

One of the critical activities carried out by NeighborWorks organizations and other housing agencies across the country is to help struggling individuals and communities improve their financial health and their family assets. Housing counseling — whether pre-purchase, rental, Home Equity Conversion Mortgage (HECM), or foreclosure intervention — plays a vital role in that effort.

These housing counseling services are especially important to low- and moderate-income households. Since they generally have fewer financial reserves and less equity, unexpected financial emergencies can easily thwart these families' efforts to attain and maintain decent, safe, affordable housing.

It is NeighborWorks America's experience that objective pre-purchase homeowner education — before shopping for a home or a loan — is the buyer's best defense against delinquency and foreclosure. Homeowners receiving upfront housing counseling and assistance from their local NeighborWorks organization learn how to access responsible financing products, how to manage budgets and credit, and how to maintain their homes.

The most reliable and trusted home-buyer education and counseling is provided by objective non-profit agencies (including local NeighborWorks organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interest first. In NeighborWorks America's experience, these homeowners find themselves facing foreclosure with far less frequency than other homeowners.

Local NeighborWorks organizations can attest that the customers who receive proper pre-purchase and post-purchase education and counseling are much more likely to be successful long-term homeowners because they have been properly prepared. They are not the individuals that end up in trouble and at risk of default because of bad mortgages.

Homeowners' odds of success are increased even further when they have access to post-purchase education and counseling.

Therefore, NeighborWorks America fully supports the full range of housing counseling, including the broad range of counseling activities served by the HUD Housing Counseling program.

Administrator of the National Foreclosure Mitigation Counseling Program

NeighborWorks America had already distinguished itself as a nationally recognized leader in the fight against foreclosures (having created the NeighborWorks Center for Foreclosure Solutions in 2005) when in FY 2008, Congress asked NeighborWorks America to administer the National Foreclosure Mitigation Counseling Program (NFMC).

The legislation establishing the NFMC program required NeighborWorks America to design and launch the program, and award foreclosure counseling grants, within 60 days of enactment of the legislation. NeighborWorks America met that aggressive timeline.

Since December 2007, a total of nearly $540 million has been appropriated to the NFMC program through five funding rounds.

Round I-- The Consolidated Appropriations Act of 2008 (Public Law 110-161) provided $180 million in FY 2008 funding to NeighborWorks America to administer the NFMC program.

Round II -- The Housing and Economic Recovery Act of 2008 (Public Law 110-289) provided an additional $180 million in FY 2008 funding to continue the program.

Round III -- The Omnibus Appropriations Act of 2009 (Public Law 111-8) appropriated an additional $50 million in FY 2009 funding to continue the program.

Round IV -- H.R. 3288, providing FY 2010 appropriations for the Departments of Commerce, Defense, Education, Health and Human Services, Housing and Urban Development, Justice, Labor, State, Transportation, the Treasury, and Veterans Affairs, and other agencies, provided an additional $65 million for continuation of the program.

Round V -- H.R. 1473, the Department of Defense and Full-Year Continuing Appropriations Act of 2011 (Public Law 112-10) provided an additional $64,870,000 for continuation of the National Foreclosure Mitigation Counseling program. The appropriation was based on the FY 2010 appropriation of $65 million, less a 0.2% across-the-board reduction for all domestic discretionary spending.

At this point (September 2011), more than 1.2 million homeowners facing foreclosure around the country have been counseled by the 1,700 grantees and sub-grantee foreclosure counseling agencies funded through the NFMC program.

Low-income homeowners received 66 percent of the NFMC services. Twenty-five percent of the program counseling was delivered to homeowners living in ZIP codes with the majority of residents making less than 80 percent of area median income (AMI).

And, the NFMC program is making a real difference. Simply put, foreclosure counseling works.

An independent third-party evaluation of the NFMC program by the Urban Institute in December 2010 found that troubled homeowners who receive NFMC counseling achieve better results for the economy, their communities, and their families:

- Homeowners who received counseling through NFMC were almost 70% more likely to cure their foreclosure than if they had not received NFMC counseling;
- NFMC clients who received loan modifications reduced their loan payments by $267 more per month ($3,200 per year) than homeowners who received modifications but did not work with a counselor.
    - That is a cumulative savings of more than half a billion dollars a year ($560,500,000);

- Homeowners in serious delinquency or foreclosure who received NFMC counseling and received a loan modification after counseling were 53% more likely to cure their loan defaults than were other homeowners in similar situations who did not receive NFMC counseling.
- Further, homeowners increased their relative odds of remaining current on their loan modification payments by 45% with NFMC counseling.

These findings speak volumes about the value of foreclosure counseling and the vital role counselors play in helping homeowners find solutions to foreclosure. And the benefits of foreclosure counseling extend far beyond the individual homeowners.

When homes go into foreclosure, the impact reaches far beyond the individual homeowners who lose their homes. Foreclosed homes affect the entire community. As foreclosed properties are abandoned, the value of surrounding homes declines and other homeowners have difficulty selling or refinancing their homes, leading to further disinvestment in communities.

As a result, local property tax collections decline, affecting schools and government services, creating a downward spiral that is detrimental to the entire community – and ultimately to the local, regional and national economy.

With more than 13 million families currently underwater on their mortgages[1] (meaning they owe more on their mortgage than their home is worth), and projected foreclosure rates at 1.75 million to 2 million in FY 2012, support for foreclosure counseling will continue to be necessary.

NeighborWorks America continues to be an outstanding steward of federal resources with the NFMC program, having developed efficient application review processes, program administration, and compliance monitoring. In the most recent, fifth round of NFMC funding, communities across the country were able to put the funds to use just two months after funds were appropriated. This quick turn-around ensures timely assistance for families in crisis, as well as retention of experienced foreclosure counselors by the housing counseling agencies.

In each NFMC grant round, the demand for funds has far exceeded the amount available -- even after a request cap had been imposed. In Round 5, the most recent grant round, even with a cap imposed on the amount that any organization could request, 144 eligible housing counseling agencies applied for $212.7 million in NFMC grant funds, while only $67.7 million was available (including funds recaptured from prior grant rounds).

More than 1,400 nonprofit counseling agencies and local NeighborWorks organizations across the country are expected to be engaged in the NFMC Program as a result of these recent Round 5 awards.

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[1] According to CoreLogic (June 2011)

Quality Control and Compliance in NFMC

NeighborWorks America places a strong emphasis on compliance monitoring in the NFMC program.

Through a competitive process, NeighborWorks America awarded a contract to C-BIZ/Mayer Hoffman McCann (MHM), a national, top-ten Certified Public Accounting firm with over 30 locations across the country, to conduct remote and on-site quality control and compliance monitoring of all NFMC direct grantees and a sample of their sub-grantees.

Some grantees and subgrantees received on-site reviews, determined by a risk rating system. Those who received on-site reviews in year two represented 64% of NFMC funds awarded. All other NFMC grantees received remote reviews.

A set of agreed-upon procedures was applied which examined:

- Compliance with program policies and procedures;
- Completeness of client files;
- Compliance with federal laws and standards, such as OMB circulars A-110 and A-133;
- Quality of the counseling and qualifications of the counselors;
- Confirmation that clients who were reported actually received counseling;
- Customer satisfaction.

Grantees were notified of any findings cited by MHM during their compliance review, and NFMC staff worked with grantees that were identified as having findings through the review, to ensure that any deficiencies were appropriately addressed.

Foreclosure Intervention Training: Building Foreclosure and Default Mitigation Counseling Skills and Performance

As directed by the NFMC legislation, NeighborWorks America has used a portion of the appropriated NFMC resources to train and certify nonprofit mortgage foreclosure and default mitigation counselors.

Training for foreclosure counselors will remain a critically important component of foreclosure mitigation response through FY 2012.

First, relatively high turnover rates among modestly compensated foreclosure counselors who experience very high levels of stress in their daily interactions with distressed borrowers mean that new counselors need to be hired, trained and certified.

Second, both experienced and new counselors require ongoing additional training as federal regulations and legislation and industry practices evolve related to servicer processes, loan modifications, mediations, workouts, refinancing and other assistance for delinquent homeowners.

To meet these training needs, NeighborWorks America has established an aggressive program to train foreclosure counselors across the country through a combination of multi-course, week-long trainings at national NeighborWorks Training Institutes and other regional venues; specialized place-based training events; and a series of online training courses.

NeighborWorks America offers a Foreclosure Prevention Counseling series of courses involving both online and classroom training, exams and certifications that all conform to the National Industry Standards for Foreclosure Intervention Counseling.

Under the NFMC program, from FY 2008 to date, NeighborWorks America awarded 18,835 training certificates in foreclosure intervention-related coursework to individuals from more than 1,500 organizations, at 144 training events, in 75 cities, and through online learning courses.

Ad Council Campaign

In addition to NeighborWorks' administration of the NFMC program, the Corporation has developed a number of other important initiatives to help families at risk of foreclosure. These include two separate public service campaigns.

To reach the millions of homeowners in danger of losing their homes, NeighborWorks America, in partnership with the Ad Council, created a national public outreach campaign in 2007. The Ad Council campaign has been financed primarily by private sector funds from NeighborWorks America's partners.

The campaign has continuously ranked in the top ten of all Ad Council campaigns, reached millions of households and garnered more than $165 million in donated media.

Loan Modification Scam Alert Campaign

The collapse of the mortgage markets and the downturn in the economy has led to a wide array of mortgage modification and rescue scams.

These scams use high-pressure sales tactics to convince homeowners to pay high fees for "guaranteed" mortgage modifications – or in some instances convince borrowers to unknowingly sign over the deed to their homes based on empty promises to save homes from foreclosure.

In response to this disturbing trend, NeighborWorks America, with Congressional support and $6 million in federal funding, launched "Scam Alert" – a multi-language anti-rescue scam public education campaign — in October 2009. The Campaign includes events in 25 markets identified as high-risk targets for scam artists; radio Public Service Announcements; creation of a LoanScamAlert.org website, where individuals can report scams; and distribution of collateral materials, which list tips to avoid becoming the victim of a mortgage rescue scam.

NeighborWorks America has partnered with a broad cross-section of other organizations on the Scam Alert campaign including: HUD, Treasury, FTC, Department of Justice, Fannie Mae, Freddie Mac, Lawyer's Committee, State Attorneys General, FDIC, and others.

As of July 31, 2011, the campaign's Public Service Announcements (PSAs) had aired over 40,000 times in more than 70 media markets in English, Spanish, Korean, Chinese, and Vietnamese, and garnered more than $2.4 million in total donated media.
Further, as a result of the campaign, more than 30,500 official complaints have been filed with law enforcement authorities regarding scams.

Homeownership Education and Counseling

Over and above the efforts of the NFMC program and NeighborWorks America's public service campaigns, NeighborWorks groups and communities count on HUD housing counseling assistance to improve the lives of the working people throughout the country.

NeighborWorks America is a HUD-approved housing counseling intermediary. Over the years, it has received HUD housing counseling funds, which it has passed-through to approximately 100 local NeighborWorks organizations. A number of other local NeighborWorks organizations have applied directly to HUD for HUD housing counseling funds.

HUD housing counseling funds have been an important resource to provide the infrastructure which allows local NeighborWorks organizations and other housing counseling agencies to build a strong foundation for their housing counseling activities. The HUD housing counseling program supports the delivery of a wide variety of housing counseling services to potential homebuyers, homeowners, low- to moderate-income renters, the homeless, and to seniors (through the Home Equity Conversion Mortgage, or Reverse Mortgage).

In FY 2010, HECM certified counselors at 26 NeighborWorks affiliates counseled approximately 650 clients on HECM counseling. HECM loans were found to be an especially viable option for older homeowners on limited incomes, but with equity in their homes -- and a critical support to those who fall delinquent or face the danger of foreclosure and losing their homes.

To ensure that consumers have access to the highest quality pre- and post-purchase homeownership counseling, NeighborWorks America, together with other industry partners, developed the National Industry Standards for Homeownership Education and Counseling, which set standards for high quality and ethical services, covering everything from counselor training and certification requirements to the content areas covered, performance criteria and recordkeeping.

Nation's Largest Trainer of Affordable Housing and Community Development Practitioners

NeighborWorks America is the nation's largest and most highly regarded trainer of nonprofit affordable housing and community development practitioners, advancing the skills and performance of the broader community development field through its highly regarded NeighborWorks Training Institute and other training programs.

The training provided by NeighborWorks America is underwritten by various funding sources, including: Core Appropriation (36%); NFMC Appropriation (19%); HUD Cooperative Agreement (12%); other Federal Contracts (8%); support from private-sector funders and State Housing Finance Agencies (12%); and tuition fees and other revenue (13%).

This funding supports scholarships for community development practitioners to attend training; course development; course refinement and delivery; faculty recruitment and development; along with marketing, outreach and other activities related to training delivery.

In FY 2010, NeighborWorks America awarded 20,300 training certificates to affordable housing and community development practitioners from 3,300 organizations and municipalities at four NeighborWorks Training Institutes (attended by an average of 1,800 participants at each) and through 285 locally conducted trainings classes and 15 web-based e-learning courses.

The training and education NeighborWorks America provides prepares community development practitioners to deliver top-quality services by equipping them with the professional skills they need to be effective. NeighborWorks has a catalogue of more than 200 courses that are offered annually.

Approximately half of the training that NeighborWorks provides each year is related to homeownership education and counseling for nonprofits engaged in this mission – helping customers become and remain successful homeowners. NeighborWorks also offers an extensive array of coursework and professional certificate programs in affordable housing development; rental property and asset management; construction management; nonprofit management and leadership (including board governance); community revitalization; community resident engagement and resident services; and community economic development.

In our homeownership and community lending training alone, over the last seven years, NeighborWorks America issued more than 55,000 training certificates of completion in homeownership education and counseling, community lending, reverse mortgage and foreclosure intervention counseling courses to build the skills and efficiencies of community development staff providing direct services in their respective markets to prospective homeowners, distressed borrowers, and seniors.

In FY 2010, the following training certificates were issued:

Total Homeownership Education and Counseling Training Certificates	12,562
All foreclosure-related training certificates	5,653
NFMC-funded foreclosure training certificates	4,743
HUD-funded homeownership counseling training certificates	1,880

One important source of NeighborWorks funding for all of the housing counseling training we have provided over the past six years has come from a HUD Housing Counseling Training cooperative agreement. In FY 2010, NeighborWorks competed for and received a $3.1 million Cooperative Agreement with HUD to provide training to counseling staff and leadership at HUD-approved counseling organizations. Under that agreement, NeighborWorks provides:

- Tuition and lodging scholarships to more than 1,000 housing counselors from HUD-approved housing counseling agencies to attend training at NeighborWorks Training Institutes and regional place-based trainings– resulting in more than 2,000 training certificates being awarded in homeownership and community lending classroom courses; and

- An array of online course offerings to HUD-approved agencies resulting in an additional 1,000 e-learning certificates of completion to HUD-approved counseling agency staff in homeownership-related courses.

A portion of the $3.1 million FY2010 cooperative agreement with HUD was for NeighborWorks America to administer the HUD-HECM Counselor Reverse Mortgage Education Project for the existing network of nearly 1,000 HUD HECM-Exam certified counselors from 1,135 agencies, and new counselors seeking HECM certification. The project provides HECM training, continuing education, support, technical assistance, reverse mortgage loan analysis and comparison software, counselor resources, national exam oversight and HECM counselor evaluation and coaching. Additionally, last year NeighborWorks America also received $834,000 to provide training and support services specifically to HUD's HECM Property Charges Initiative to assist counselors to help delinquent HECM borrowers resolve tax and insurance arrearages and avoid foreclosure.

Some of the specific training courses NeighborWorks America provides under the cooperative agreement with HUD include:

- Compliance with State and Federal Regulations;
- Loan Servicing and Collections;
- An Introduction to Home Equity Conversion Mortgages;
- Counseling Clients to Recognize Fair Lending Abuse and Mortgage Fraud;
- Understanding the Underwriting Process;
- Delivering Effective Financial Education for Today's Consumer;
- Credit Counseling for Maximum Results;
- Counseling the Homeless and Those at Risk of Becoming Homeless;
- Homebuyer Education Methods: Training the Trainer;
- How to Become a HUD-Approved Housing Counseling Agency;
- Homeownership Counseling Certification: Principles, Practices and Techniques;
- FHA-Insured Loans: An Affordable Mortgage Option;
- Counseling Buyers of REO Properties;
- Counseling Clients Seeking Rental Housing;
- Introduction to HUD's HECM Counseling Program Procedures and Roster;
- HECM Property Charge Loss Mitigation Counseling;
- Financial Coaching: Helping Clients Reach Their Goals;
- Homeownership Counseling Certification for Program Managers and Executive Directors.

NeighborWorks America will continue to deliver efficient training of the highest caliber not only on the topic of housing education and counseling and foreclosure intervention counseling, but also in affordable housing development; housing property and asset management; community stabilization; energy efficient design, rehab, and management; community economic development; and nonprofit management and leadership.

NeighborWorks' Role in Rental Housing

In addition to its roles as NFMC administrator, community development trainer, and agent for homeownership creation and preservation, NeighborWorks America plays a strong role to facilitate the development, asset management, and services of rental housing developed, owned, and managed by NeighborWorks organizations. While the desire to own a home is strong across all socioeconomic groups, clearly the path to homeownership almost always includes some time in rental housing -- and for some families rental housing is a better choice given their financial or other circumstances.

Currently more than one-third of Americans live in rental housing. And the deterioration of existing rental housing in many areas of the country has a blighting impact on entire communities.

Therefore, many NeighborWorks organizations focus on the development, acquisition, rehabilitation and management of viable and high quality rental housing, which represent an important asset to their communities.

The NeighborWorks network, which collectively owns more than 80,000 rental housing units across the country, represents one of the nation's largest nonprofit group of owners – providing safe, attractive and affordable rental opportunities, which serve as an asset to the broader community. NeighborWorks provides strategic support to these nonprofit owners, with an emphasis on sound asset management practices that strengthen the housing in the community, and strengthen the capacity of the organizations. NeighborWorks organizations also provide enhanced resident service programs – such as after-school programs, financial education and employment training – to more than 100,000 residents in 2010, in their apartment and rental communities. These services offer resident families opportunities to improve their skills, educational attainment, and financial footing.

Oversight

Just as it does with its network of affiliated organizations across the country, NeighborWorks America holds itself to the highest operational standards. In addition to the oversight provided by the Office of Management and Budget and Congress, the Corporation benefits from multiple additional forms of oversight, including:

The Corporation's Board of Directors is defined by statute and consists of the heads of the federal financial regulatory agencies (the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Federal Reserve System, and the Office of the Comptroller of the Currency,) along with the Secretary of HUD – or their designated appointees. This is an active Board, meeting at least quarterly as a full Board, and further carrying out their fiduciary and oversight responsibilities through a series of Standing Committees.

Annual Audit: NeighborWorks America undergoes an annual third-party financial audit. In the last five years (FY 2006, FY 2007, FY 2008, FY 2009 and FY 2010) NeighborWorks America received a clean, unqualified audit opinion and received no management letters– an accomplishment that demonstrates an exceptionally high level of confidence by the external auditors in the Corporation's internal controls and management.

Internal Auditor: To assure compliance with established financial and operational procedures, NeighborWorks America employs a full-time Internal Auditor and staff whose responsibilities are similar to those of an Inspector General in larger federal agencies, and involve a continual review of financial transactions, internal controls and adherence to established procedures. The Internal Auditor reports directly to the Corporation's board of directors.

Chief Financial Officer: NeighborWorks America's CFO is responsible for financial planning, budget forecasting, preparation of the organization's budget, and implementing financial best practices to enhance the organization's efficiency and effectiveness.

Government Accountability Office: NeighborWorks America is subject to review and audit at any time by the Government Accountability Office.

Internal Performance Measures: NeighborWorks America uses quarterly and annual internal performance measures at the corporate and divisional level to track progress and monitor performance.

Organizational Assessment of NeighborWorks organizations: NeighborWorks America annually evaluates the performance of each NeighborWorks organization using a system of on-site and off-site assessments, an annual review of independent audits submitted by each NeighborWorks organization for compliance and financial health, the collection and validation of network data, and the management of the corporation's Organizational Health Tracking System (OHTS).

Closing

NeighborWorks America and its affiliated NeighborWorks network of more than 235 local nonprofit community development organizations continue to have a substantial positive impact on the lives of hundreds of thousands of families as they work in all 50 states, the District of Columbia and Puerto Rico, to:

- Provide quality, affordable rental homes;
- Advance sustainable homeownership;
- Rehabilitate and repair owner-occupied homes;
- Prevent foreclosures through education and counseling; and
- Deliver programs to strengthen thousands of urban, suburban and rural communities across the nation.

Further, local NeighborWorks organizations are small to medium size businesses that, through their programmatic activity, development, rehabilitation and lending, support more than 23,000 jobs in thousands of communities across the nation and contribute to their local economies every day.

In a time of scarce federal budget dollars, a continued investment in NeighborWorks America is an impactful use of taxpayer dollars.

NeighborWorks America's grant funds have a catalytic impact on communities, and are leveraged many times over – attracting private sector funding to create and preserve affordable rental and homeownership units, generating additional economic impact and jobs in local communities.

On behalf of NeighborWorks America, and the hundreds of thousands of individuals and families served by the NeighborWorks network and NFMC-funded counselors across the country, I thank the Committee for its past support and stand ready to answer any questions that you may have.

Candy Hill,
Senior Vice President, Social Policy and Government Affairs
Catholic Charities USA

Testimony Before the

U.S. House Subcommittee on Insurance, Housing and Community Opportunity

On

HUD and NeighborWorks Housing Counseling Oversight

September 14, 2011

Good afternoon, Chairman Biggert, Ranking Member Gutierrez and members of the Subcommittee. Thank you for inviting me to discuss the U.S. Department of Housing and Urban Development (HUD) Housing Counseling program. My name is Candy Hill, and I am the Senior Vice President for Social Policy and Government Affairs of Catholic Charities USA.

I appear today before you to underscore the important role that housing counseling services have played, and should continue to play, in ensuring a stable housing market and safe and affordable housing for those who receive these services. These services are comprehensive and should not only be narrowly directed to foreclosure prevention. It is essential that these services, which support individuals and families in need, be preserved. It is incumbent on those who administer these funds to ensure the efficiency and effectiveness of these services without undue or unnecessary administrative burdens so that more funds go directly to those who need the services. As a national housing counseling intermediary for more than a decade, I am grateful for this opportunity program to share with you our perspective on the HUD Housing Counseling program.

The staggering poverty statistics announced on September 13th underscore the continued housing crisis in our nation. With the median income dropping by 2.3% and more people slipping into poverty—the greatest number in 52 years – the need has never been greater for targeted help to those on the verge of slipping into poverty.

Today, across this country, thousands of people in our communities come to one of our local Catholic Charities agencies to seek assistance. In fact, the Catholic Charities USA network is made up of 171 agencies, with 3,301 affiliates, in all 50 states and every U.S. territory. Our network employs over 65,000 staff and engages nearly 310,000 volunteers who provided help and created hope for over 10 million people, regardless of faith, in 2010. For almost three centuries, Catholic Charities agencies have served those most in need at critical and vulnerable times. Catholic Charities agencies across the nation provide a wide range of services to families and individuals, including assistance with food, housing, financial education, and family counseling. The provision of these services is grounded in the fundamentals of social work and in accordance with sound ethics and our faith tradition.

In the 2009-2010 grant period, 38 Catholic Charities agencies reported receiving grant funding through the HUD Housing Counseling Assistance Program, for a total of $1,057,385 in grant money. Through these funds, our agencies were able to offer an array of housing counseling and education services, including pre-purchase and default counseling, homeless intervention case management, tenant rights advisories, budget counseling, fair housing education, mediation, and emergency financial assistance to renters and homeowners. Our agencies served 10,821 individuals seeking assistance in securing permanent affordable housing through workshops and also served 8,479 individuals through direct counseling to resolve a rental housing problem. Another 4,394 people were reached by housing flyers distributed in communities. Catholic Charities reached 708 homebuyers through workshops and 7,635 individuals attended financial literacy sessions while 5,517 attended one-on-one pre-purchases sessions.

All told, local Catholic Charities agencies provided housing counseling services to 26,429 individuals across the country thanks to HUD Housing Counseling grants. These services yielded

undeniably successful results. For example, 13,014 households that received housing counseling pre-purchase were mortgage-ready within 180 days.

Stable housing is a goal for all of the Catholic Charities affiliates involved in housing counseling. Catholic Charities programs uniquely reach those who are challenged by poverty and often turn to us as a last resort. The population served by local agencies varies from low- to middle- income individuals and families, including a significant number of military families. Some agencies report a recent influx of higher-income individuals, who have never had to ask for assistance before, coming to them for housing counseling services due to the mortgage crisis.

Over the past grant period there has been one consistent theme running throughout the many narratives from the CCUSA sub-grantees: Families have multiple barriers to housing, jobs and self-sufficiency. Time and time again, Catholic Charities agencies are saddled with the burden of addressing immediate needs amidst a broader housing counseling/financial education agenda. Agency budgets are dwindling due to the economic recession's impact on funding sources. Despite these challenges, clients are receiving quality housing counseling. These services allow them to seek and obtain safe and affordable housing, become mortgage ready in 60-90 days, and move from homelessness to temporary and permanent housing. This success is largely due to the dedicated housing counselors and their partnerships and networks in the communities in which they work.

Catholic Charities agencies continue to work for innovative ways to help people secure and maintain housing, with the ultimate goal of helping individuals and families to achieve self-sufficiency. For instance, by incorporating a goal of family self-sufficiency into their HUD approved Housing Counseling Program, Catholic Charities in Corpus Christi, Texas, was able to achieve additional goals – a fostering of a sense of independence, self-determination, and self-reliance in their clients. By incorporating components transferrable to the housing counseling setting, the agency could reach a wider and more diverse population. This approach allowed them to develop a holistic program that not only addresses the immediate needs of individuals, but also focuses on finding long-term, sustainable and permanent solutions.

Many community-based organizations rely on housing counseling programs to prevent homelessness and help people access affordable housing. Catholic Charities agencies have pursued expanded partnerships with other local organizations in order to increase their impact. For example, Catholic Charities in Gary, Indiana, works with the Porter County Salvation Army, the Michigan City Salvation Army, the Michigan City Housing Authority, the Stepping Stone Shelter for Abused Women and the Sandcastle Family shelter to provide workshops to their clients. In collaboration with the Sandcastle Family Shelter and CHDO Housing Opportunities, the agency provided case management for beneficiaries in three counties in Northwest Indiana under HUD's HRHP grant for Homelessness Prevention under the American Recovery and Reinvestment Act.

As you well know, funding for HUD's Housing Counseling Assistance Program was eliminated in the HUD FY2011 budget appropriations. However, funding for the National Foreclosure Mitigation Counseling (NFMC) program was maintained at $65 million. The HUD counseling program throughout its history has served as an effective resource to homeowners, potential homeowners, renters, and the homeless. The NFMC – while necessary – should not supplant what housing

counseling agencies have been doing. Rather, it should be an enhancement during this continued housing crisis.

Catholic Charities USA recognizes that NeighborWorks America's NFMC program does important work related to foreclosure intervention. In fact, 11 Catholic Charities agencies received grant funding through the NeighborWorks program in the previous grant period. However, the work they are able to achieve through these grants is limited in scope relative to the work that was covered under grants from the Housing Counseling Assistance Program. Thus, the popular justification that eliminating the Housing Counseling Assistance Program simply removed a duplicate program is overly simplistic. Funding for a comprehensive and holistic Housing Counseling program is crucial, as it provides much-needed counseling to millions of families and seniors seeking secure and permanent housing solutions. Although some of the funds from housing counseling were directed toward foreclosure counseling, the HUD comprehensive housing counseling program is significantly broader in scope and impact and cannot be simplified as a duplication of the NFMC.

Important differences emerge between the two programs' distinct goals and objectives. The HUD comprehensive Housing Counseling Assistance Program is the only federal program that provides explicit support for pre-purchase counseling and education for first-time homebuyers; post-purchase counseling and education for homeowners; reverse mortgage counseling for senior homeowners; renter counseling, including for families transitioning out of homeownership; and counseling for homeless individuals and families seeking shelter or other transitional housing.

The NFMC program, on the other hand, provides foreclosure mitigation assistance to states with high default rates in effort to help eliminate the default and foreclosure of mortgages of owner-occupied single-family homes that are at risk of such foreclosure.

These differing goals translate into divergent approaches and counseling services offered. Under the HUD Housing Counseling Assistance Program, housing counselors provide pre- and post- purchase counseling, foreclosure intervention, rental counseling, housing prevention, and reverse mortgage assistance, which is a requirement to obtain a mortgage loan. The NFMC program is significantly more limited, merely providing foreclosure mitigation assistance to assist homeowners in owner-occupied homes.

The preventative approach taken under the Housing Counseling Assistance Program allows programs to be holistic in nature, which helps put individuals on the path to long-term self-sufficiency. Housing counseling provided before a home purchase can reduce the likelihood of mortgage delinquency as most housing counseling programs, especially those run by Catholic Charities agencies take a comprehensive approach to addressing the needs of the consumer and provide one-on-one counseling.

An in-depth look at the housing counseling services provided by the United Tenants of Albany (UTA) and Catholic Charities of the Albany Diocese demonstrate the comprehensive scope of services possible under the Housing Counseling Assistance Program. Catholic Charities of Albany's housing counseling activities include both direct services and community organization/development efforts. Catholic Charities of Albany maintains a housing hot-line that responds to over 5,000 requests annually for information and counseling on a wide variety of

housing problems. Catholic Charities of Albany's homeless prevention case management services include housing and budget counseling, mediation with landlords or mortgage lenders, court advocacy, structuring of payment plans, emergency financial assistance to either prevent the evictions or secure alternative housing, and intensive follow-up to insure that the individuals and families are able to retain their housing.

Catholic Charities of Albany has developed a comprehensive tenant workshop that is directed at people who are at risk of becoming homeless. This workshop focuses on rights and responsibilities, searching for apartments, identifying affordable housing, accessing community resources, understanding apartment maintenance, avoiding code violations, and learning local ordinances that deal with nuisance issues, noise level, pets, and being a good neighbor. These workshops are generally 3 hours in length and are conducted at locations accessible to low income people in the Albany area. In addition, Catholic Charities of Albany has done a wide range of landlord/tenant training for local law enforcement agencies, religious and human service organizations, military support programs such as the Navy Housing Office in Saratoga Springs, New York, and public agencies such as the local departments of social services. In the first three quarters of this fiscal year, Catholic Charities housing counselors provided one-on-one counseling to 15,000 households and over 12,000 households received pre-purchase one-on-one counseling.

The Housing Counseling Assistance Program offered intervention that was not only comprehensive, but also effective at helping distressed homeowners avoid foreclosure and increasing the likelihood that they would receive loan modification at better terms among counseled borrowers. Multiple scholarly research efforts have demonstrated the programs effectiveness. Among these, a review of 8 prior studies in 2011 shows fewer completed foreclosures and an increased likelihood of loan modification at better terms among counseled borrowers. Other studies have found that pre-purchase counseling reduces mortgage delinquency by anywhere from 19 to 50 percent and reduces default by as much as 34 percent.

Pre-purchase counseling helps reduce mortgage delinquency by helping individuals determine if they are ready for homeownership and helping them obtain safer and more affordable mortgage products. A study in 2006 estimated that 30 to 50 percent of subprime borrowers prior to the housing crisis could have qualified for a prime loan. Another study found that well-underwritten prime loans to low- and moderate-income borrowers have lower default rates. The HUD counseling assistance program provides support for seniors to receive federally mandated reverse mortgage counseling. The example of Mrs. F., a client served by Catholic Charities Hawaii (CCH), demonstrates the importance of this program:

Mrs. F. is 75 years old, divorced and lived alone in a Waikiki apartment. She has multiple medical problems and has been dealing with the recent death of her son. She lived in the same private rental unit for over 20 years. Her rent had slowly increased over the years and her health no longer allowed her to work part-time. Therefore her rent is was more than 50 percent of her income and she could no longer afford to pay her full rent each month. As a result, she owed back rent plus late fees.

The Housing Assistance Program (HAP) had helped Mrs. F. apply for senior housing and kept her status active on wait lists. After 6 years of waiting, Mrs. F. was offered a unit in a senior

housing where she would pay only 30% of her income. However when the housing management learned that Mrs. F. had an outstanding debt at her current rental, her application was initially denied. Mrs. F. felt let down and cried when she heard that her application was denied.

The CCH Housing Specialist collaborated with Mrs. F.'s case manager – they both advocated with Mrs. F.'s current landlord to waive the late fee charges, which the landlord agreed to do – thus reducing Mrs. F.'s debt from $1,600 to $570. CCH provided financial assistance to help Mrs. F. pay off her remaining debt. The CCH Housing Specialist and case manager both spoke to the housing management where Mrs. F. was offered a unit to advocate that Mrs. F. be allowed to reinstate her eligibility once her debt was eliminated, which the housing management agreed to do. As a result, the client was able to move into a unit that she can afford and avoided eviction to the street.

Under another important provision of the Housing Counseling Assistance Program, Home Equity Conversion Mortgage (HECM) loans were available to a particularly vulnerable population, the oldest and poorest Americans, but this vital protection for this group is no longer available. These clients are typically seeking a reverse mortgage as a result of facing health issues or other major life transitions like loss of spouse, possible bankruptcy or foreclosure. HECM counseling was different from other forms of housing counseling as it addressed the individual client's vulnerability and was intended to be preventative, taking an approach that was both comprehensive and long-range. In addition, HECM counseling encouraged public/private solutions to address the client's vulnerabilities. This is critical given that reverse mortgage lender interests often are not aligned with the interest of senior homeowners. For most seniors, a home is likely their largest asset—one that should be protected from being jeopardized by an irreversible mistake. HECM provided valuable protection to this population that is particularly prone to falling victim to scams from unscrupulous lenders.

Grants from the Housing Counseling Assistance Program not only played a vital role in helping those in greatest need, but they did so with great efficiency and fiscal responsibility. Studies show that preventative counseling cost much less the foreclosure costs that would be much more likely to ensue without it. Losses per foreclosure are estimated to range from $60,000 to over $100,000. These losses must be absorbed by homeowners, neighbors, financial institutions and local governments. During the 2009-2010 granting period, Catholic Charities used HUD Housing Counseling Assistance Program funding to help 1,401 household avoid foreclosure, thereby preventing $84 to $140 million dollars in losses to the economy. This represents a value that is at least an 80-fold return the amount given to Catholic Charities USA in HUD grant money.

In addition to avoiding costly foreclosures, preventative and comprehensive housing counseling can enable families to purchase a home using sustainable mortgage financing. Home-buying produces an incredible return on investment by driving broader economic activity. The National Association of Realtors estimates that a housing purchase generates $30,792 of positive economic activity. The services provided by Catholic Charities using HUD Housing Counseling Assistance Program funding from the 2009-2010 granting period enabled 216 households to purchase homes. The payback on this outcome alone is $6,651,072 of positive economic activity,

which is more than six times the amount that was given to Catholic Charities in grants over the same period.

These two examples of substantial measurable paybacks on investments made through the HUD Housing Counseling Assistance Program are supplemented by other measurable and non-measurable benefits. Benefits that are not easily quantifiable by economic models include the avoidance of emotional losses and stress borne by homeowners who suffer a foreclosure, and the potentially devastating effects on vulnerable senior homeowners from irreversible mistakes involving the disposition of their home equity.

In addition, Housing Counselors are able to help low income individuals and families with rental issues such as the enforcement of Fair Housing laws—especially, housing for single parents with children who are often discriminated against in certain housing markets. Housing counseling is needed to avoid long term practices of steering and restricted covenants that are still being used by potential sellers. The discrimination in housing is often times very subtle and as such, demands enhanced oversight and protections. This is why housing counseling continues to play a vital role in fair and accessible housing opportunity.

Local agencies report that unless funding for this critical program is restored:

- People facing housing crises will have no place to turn for help;
- The number of predatory and pay-day loans will increase; and
- Potential and new homeowners will be ill-prepared to face financial institutions;

Current unmet needs by some agencies include:

- Waiting lists—49 Catholic Charities kept waiting lists for housing services in 2010. They were forced to turn away people who are:
    - Behind or current on their mortgage—but in search of assistance
    - Facing foreclosure
    - Not eligible for foreclosure mitigation assistance
- Limiting the number of housing counseling workshops
- Some areas going underserved or no service in some areas—particularly rural communities

Recommendations:

We acknowledge that tough choices will be made as part of your ongoing budget discussions and that every one of these tough choices will be met with frustration, disappointment and even anger from certain segments of the population. However, we also have a severe housing crisis facing our nation, and we need housing counseling to help the markets recover. Most agencies report that the most frequent service request they received was for rental assistance due to homes lost in foreclosure among renters as well as homeowners. First time homebuyers, senior homeowners, renters, homeless individuals, and families all need housing counseling.

In addition, it is imperative that we continue to invest in the future success of homeowners and renters to ensure that another housing crisis does not occur. Now is the time for Congress to look for efficient and effective ways to operate programs more efficiently. One way to do this is to streamline the processes instead of adding additional layers of bureaucracy and ensuring that

adequate and relevant outcomes are produced.

Catholic Charities agencies have and will continue to work in partnership with the Federal government to care for the poor and needy in our midst. Those in danger of losing their homes or struggling to make mortgage payments are in need of our help and we will continue to assist all who come to us for sound housing assistance.

Therefore, we urge the Congress to:

- Invest in this critical program and to support comprehensive and innovative housing counseling programs that allow communities the flexibility needed to address their housing concerns.
- Restore $87.5 Million in funding to the HUD Housing Counseling Program, the same amount as in 2010 and the same amount as in the President's budget.
- Make, affordable, and accessible comprehensive housing a priority and encourage local governments and private interests to do the same.
- Ensure that all federal programs including these we discuss today are effective and efficient—not overly burdened with layers of administrative oversight, but effectively overseen so that the funding and services meet the needs of those individuals these programs have been designed to serve.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

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Written Testimony of Deborah C. Holston, Acting Deputy Assistant Secretary for Single Family Housing, U.S. Department of Housing and Urban Development

"Housing Counseling Program"

Hearing before the House Financial Services Subcommittee on Insurance, Housing, and Community Opportunity

Wednesday, September 14, 2011

Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Department of Housing and Urban Development's (HUD's) efforts to educate low and moderate income households regarding their housing needs through the Housing Counseling Assistance Program. I am appreciative of the strong support for the program that has been provided by so many members of this subcommittee, including of course Chairman Biggert.

Since the 1970s, HUD's Housing Counseling Assistance Program has served to help American families achieve homeownership and locate affordable housing opportunities. The benefits of housing counseling are widespread and impact communities in every corner of the nation. In fiscal year 2010, HUD-approved housing counseling agencies provided counseling services to a record number of households -- more than 3 million -- using both HUD and non-HUD funding. Counseling agencies provide services to a diverse set of clients, including particularly vulnerable populations such as seniors, low and moderate income families, and racial and ethnic minorities.

However, after a sustained period of increasing appropriations, Congress recently elected to cut HUD's Housing Counseling Program appropriation from $88 million in fiscal year 2010 to zero in FY 2011. Because of the timing of their release, the FY 2010 appropriation is able to fund housing counseling agencies through the end of FY 2011. But without some level of funding in the FY 2012 appropriation, HUD-approved housing counseling agencies across the nation will face a gap in funding going forward. This cut jeopardizes the vital consumer protections housing counselors provide nationwide, and restoration of these funds is important to the recovery and stability of our housing markets. As part of our ongoing efforts to assess and improve this program, HUD has identified ways to streamline and improve the housing counseling program, deliver grant money more quickly, and restore confidence that an investment in housing counseling is a worthwhile investment of public funds.

The lingering effects of the most severe economic downturn since the Great Depression have had devastating impacts on the Nation's homeowners. Foreclosures are increasingly being driven by homeowners who find themselves unemployed or underemployed and can no longer make payments that were once affordable. Making matters worse, these borrowers often can't move to find new jobs because they can't sell their homes as a result of their owing more on their houses than they are worth.

Housing counselors equip Americans with the information they need to make smart housing choices. Many homeowners in danger of losing their homes because they have mortgages they can't afford were simply unaware of less expensive and safer options, such as FHA, for which they could have qualified. This occurred in part because many did not receive pre-purchase housing counseling. Inadequate funding for the full spectrum of housing counseling services could result in families continuing to make unwise choices regarding home financing with long-term impacts on their financial stability.

Program Description

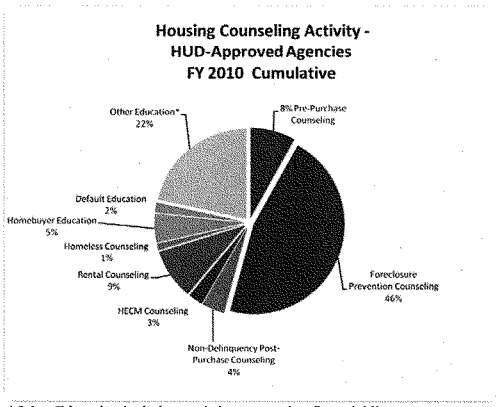
The Housing Counseling Assistance Program supports and leads a large field of skilled professionals who provide valuable housing related assistance to millions of households nationwide. The Program is the only dedicated source of federal funding for the full spectrum of housing counseling – including pre-purchase, foreclosure prevention, non-delinquency post purchase, reverse mortgage, rental and homeless counseling.

One of the benefits of the program is that counseling agencies can adjust their services across counseling activities to meet changing housing market conditions. For example, 46 percent of clients seeking counseling in 2009 and 2010 sought foreclosure prevention assistance. By comparison, in 2006 before the foreclosure crisis began, only 10 percent of counseling activities focused on foreclosure prevention.

Agencies can also use their funds to support counseling activities that meet the demands of their local populations. For example, in FY 2010 agencies in Hawaii, which has the third highest homelessness rate in the nation, dedicated 40 percent of their counseling services to providing assistance to homeless individuals. And in Florida, a state hard hit by the foreclosure crisis, agencies provided 60 percent of their FY 2010 clients with foreclosure prevention counseling but also dedicated 20 percent of their services to providing reverse mortgage counseling to their large senior population.

The flexibility of HUD's funding also allows agencies to fill the gaps left by other sources of funding and thus allows agencies to serve all clients seeking assistance. For example, some mortgage servicing institutions provide funding for counseling services but restrict the funds' use to their own customers. Other sources of local funding restrict the use of funds to homeowners in targeted jurisdictions. Because HUD's funding does not have these restrictions, agencies can use the funding to serve clients regardless of their mortgage servicer, jurisdiction, or other criteria.

The following chart demonstrates the prevalence of the various types of housing counseling services in FY 2010, as reported by counseling agencies in the Program.



*Other Education includes workshops covering financial literacy, home maintenance, fair housing, predatory lending, and rental issues.

There are 2,680 Housing Counseling Agencies (HCAs) participating in HUD's Housing Counseling Program:

- 1005 Local HCAs with 462 branches
- 28 National Intermediaries
- 18 State Housing Finance Agencies (SHFAs)
- 7 Multi-State Organizations (MSOs)
- 1160 affiliates and branches of intermediaries, SHFAs and MSOs

A large portion of HUD's Housing Counseling Program is operated through large-scale partners - Intermediaries, SHFAs and MSOs - which are national, regional and state organizations that support networks of local branches or affiliates. These organizations provide support to their local branches or affiliates through pass-through funding and technical assistance. Through these arrangements, HUD enjoys efficiencies and economies of scale related to the training, approval, oversight, and funding of local agencies. Examples of HUD approved intermediaries include Catholic Charities USA, National Council of La Raza, National Urban League, the National Coalition for Asian Pacific American Community Development, and the National Council on the Aging.

HUD dedicates resources to building the capacity of these organizations by providing training grants to agencies that provide low-cost training opportunities to employees of HUD-approved counseling agencies. In FY 2010, these grants provided training to more than 7,500 counselors. Without reinstating housing counseling funding in 2012, HUD will be unable to support the continued professional development of these counselors. In an environment where housing markets and assistance opportunities are in constant flux, an inability to keep housing counselors up to date would be a disservice to both the counselors and the clients they serve.

Demand for Housing Counseling

Foreclosure Prevention Counseling

Housing counseling plays an important role in helping to resolve or prevent mortgage delinquency and default. During the current housing market downturn that has impacted millions of American homeowners, HUD-approved housing counseling agencies have been instrumental in helping households facing severe mortgage delinquency and foreclosure understand their options and pursue a variety of loss mitigation solutions.

Achievements

- **Activity** - Since 2005, more than 4.1 million households have received individual foreclosure prevention counseling and more than 150,000 have participated in homeowner default education workshops. This represents 31.8% of HUD housing counseling activity between 2005 and 2010. The percentage of housing counseling agency clients pursuing foreclosure prevention counseling quadrupled between 2005 and 2010, with approximately 46% of the three million counseling agency clients seeking foreclosure prevention assistance last year.
- **Capacity** - 2,283 agencies are approved to provide foreclosure prevention counseling
- **Mortgage Modifications** - Counselors often serve as the intermediary between the homeowner and servicer and apply loss mitigation skills to help struggling borrowers modify their loans, refinance, or pursue other foreclosure alternatives. In fact, between 2009 and 2010, HUD-approved housing counselors helped homeowners obtain more than 530,000 modifications. HUD does not collect data on whether the modification is a trial modification or a permanent modification.
- **Enhancing Federal Foreclosure Prevention Programs** - Housing counseling agencies are a key factor in making existing foreclosure prevention programs successful because counselors help qualify and prepare households for the various Federal, state and local foreclosure programs available to them, including the Neighborhood Stabilization Program (NSP), the Making Home Affordable program, and the Emergency Homeowners Loan Program. The activity associated with these Programs is significant. For example, HUD estimates that almost 13,000 households have received homebuyer education to date in order to qualify for assistance through the first two rounds of NSP.

Complementing the National Foreclosure Mitigation Counseling (NFMC) Program

HUD has had a longstanding, productive partnership with NeighborWorks America's NFMC program, a congressionally funded foreclosure prevention grant program that has strengthened the provision of housing counseling services nationwide. However, HUD's Housing Counseling Assistance Program and the NFMC program play distinct roles and serve different populations.

The most important distinction between the two programs is that NFMC grants are restricted to foreclosure prevention counseling. However, as noted above, HUD's grants fund the full spectrum of housing counseling services- including not only foreclosure prevention counseling, but also pre-purchase, rental, non-delinquency post purchase, reverse mortgage and homeless counseling.

Although HUD and Neighborworks provide funding for foreclosure prevention counseling, there is a continued need for both funding sources. While numerous counseling agencies receive foreclosure prevention funds through both HUD and NFMC, many local housing counseling agencies are ineligible for NFMC grants because NFMC eligibility is restricted to HUD-approved intermediaries, State Housing Finance Agencies (SHFA), and NeighborWorks affiliates. HUD estimates that approximately 650 local agencies are unaffiliated with an intermediary or SHFA and thus are eligible for HUD grant funds but not NFMC funds.

HUD provided FY 2010 grants to approximately 400 of these agencies. More than 100 of these agencies are located in New York, North Carolina, Florida, California and Illinois, states hard hit by the housing crisis.

Finally, HUD's program has regulatory authority, which the Department uses to establish standards for counseling services. HUD approves, monitors and recertifies housing counseling agencies based on these standards. This is a function that NFMC and other housing counseling programs rely upon in creating eligibility requirements for their funding.

Other forms of Housing Counseling Critical to Housing and Economic Recovery

In addition to serving on the front lines of the battle to help distressed homeowners, HUD counselors continue to serve as an invaluable resource for those considering purchasing their first home; homeowners seeking home maintenance and financial advice; seniors hoping to obtain reverse mortgages, individuals seeking help in locating or securing rental housing; homeless individuals in search of shelter or social services; and individuals interested in obtaining information to arm themselves against predatory lending and housing discrimination.

There is no other dedicated federal funding source for these types of counseling. And without continued support from HUD, agencies will be left with no choice but to significantly scale back these counseling services, lay off housing counselors, and in some cases close their doors.

Pre-Purchase/Home Buying

Counselors provide potential homebuyers with the information they need to make smart choices regarding homeownership. In addition to helping create mortgage-ready homebuyers, the thorough budget and affordability analysis undertaken during counseling helps households that are unready for homeownership avoid making a costly mistake.

Bucks County Housing Group, a HUD-approved agency in Wrightstown, Pennsylvania, utilizes its HUD grants to provide a 6-month pre-purchase "Boot Camp" for families interested in purchasing a home. The program includes workshops that provide in-depth information on credit, budgeting, loan application, and other topics crucial to the home buying process. It also includes monthly support group meetings where potential homebuyers share their barriers and successes. Should HUD funds not be available in the future, this "Boot Camp" and similar programs across the nation will be in jeopardy.

The Community Development Corporation of Utah (CDCU), a HUD-approved agency in Salt Lake City, Utah, has used its pre-purchase counseling services to connect qualified clients with other HUD programs. One client lives with a physical disability and must rely on a limited income. However, he had a goal of attaining homeownership and diligently saved for many years for a down payment. After having trouble finding a home he could afford that would not require extensive repairs, the client attended a CDCU homebuyer education course and followed up with one-on-one pre-purchase counseling. Through its counseling services, CDCU helped the client purchase a home that had recently been renovated as part of HUD's Asset Control Area Program.

Since 2005, nearly 1.9 million individuals have received one-on-one pre-purchase counseling and close to 1.5 million households have participated in homebuyer education workshops. This represents 25.3% of HUD housing counseling activity between 2005 and 2010.

Reverse Mortgage/HECM

The Housing Counseling Assistance Program improves housing and financial stability for seniors by providing reverse mortgage counseling, which is statutorily required in order for borrowers to be eligible for FHA's Home Equity Conversion Mortgage (HECM) product. HECMs and other reverse mortgage loans help ensure that senior Americans have sufficient resources to live out their lives and reduce the likelihood that they will need to rely on public assistance as they age.

As more Americans retire and decide to "age in place," tapping home equity will become an increasingly popular means to fund retirement. Housing counselors help seniors make wise choices regarding reverse mortgages and protect seniors against unscrupulous lenders and financial advisors. HUD-approved counselors play a critical role in ensuring these services are provided to seniors at low or no cost.

Housing Options Provided for the Elderly (HOPE), a HUD-approved housing counseling agency in St. Louis, Missouri, serves the needs of its community by targeting about 90 percent of its counseling services to providing reverse mortgage counseling to seniors in need. HOPE helps its clients by visiting them in their homes and providing them with the information they need to live with dignity and independence.

Since 2005, more than 486,000 seniors have received reverse mortgage counseling and assistance through HUD's program, generally for little or no cost. This represents 3.6% of HUD housing counseling activity between 2005 and 2010.

Non-Delinquency Post-Purchase

Counselors provide advice and assistance to current homeowners seeking to refinance, obtain a home equity or home improvement loan, or receive financial management or budgeting counseling.

Housing Alternatives of Hattiesburg, Mississippi uses HUD grant funding to connect seniors and persons with disabilities with the resources they need to make much-needed renovations to their homes. The agency provides clients with information about local assistance programs and helps interested clients apply, gather required documentation, clear title issues, etc. HUD's housing counseling grant funds provide between 25 and 50 percent of the agency's housing counseling budget in a given year.

Since 2005, more than 641,000 households have received one-on-one non-delinquency post-purchase counseling. This represents 4.7% of housing counseling activity between 2005 and 2010.

Rental

Counselors provide housing search services to help families locate and access affordable rental housing and resolve tenant disputes. Counseling is available to households for whom home buying is not currently an option, including those who have been displaced by foreclosures.

Housing and Credit Counseling Inc, a HUD-approved housing counseling agency in Topeka, Kansas, uses its HUD grants to meet the needs of the renters in its community. In a state with a relatively low homeownership rate, the agency is able to provide its clients with rental counseling, including vital consumer protection information on local, state and federal laws affecting the relationship between tenants and landlords. For those renters interested in purchasing a home, the agency helps find answers regarding all aspects of the home buying process, including affordable housing options and home maintenance.

Since 2005, more than 2.1 million households have received rental assistance counseling. This represents 15.9% of HUD housing counseling activity between 2005 and 2010.

Homeless Assistance

Counselors provide homeless individuals with information on obtaining temporary shelter and permanent shelter, as well as assistance with applying for rental assistance.

The Greensboro Housing Coalition in Greensboro, North Carolina used HUD grant funding to help homeless individuals move from housing crisis to stability. In FY 2010, the agency served more than 500 homeless individuals, which represents about 25 percent of its total counseling activity. The agency uses its counseling program to connect clients with HUD's Homelessness Prevention and Rapid Rehousing program, helping to get Recovery Act dollars into the hands of the families they are meant to serve.

Since 2005, nearly 348,000 individuals have received homeless counseling. This represents 2.6% of HUD housing counseling activity between 2005 and 2010.

Other Education

HUD-approved housing counselors host a variety of education workshops and group sessions focused on combating scams, avoiding predatory lending, preventing housing discrimination, and improving basic financial literacy.

Since 2005, more than 2.1 million individuals have received other forms of housing-related education. This represents 15.9% of HUD housing counseling activity between 2005 and 2010.

Housing Counseling Serves Many Communities and Populations

The benefits of housing counseling are widespread and impact communities and diverse populations in every corner of the nation. In fiscal year 2010, HUD-approved housing counseling agencies provided counseling services to a record number of households -- more than 3 million -- using both HUD and non-HUD funding.

Expansive Geographic Coverage

There are more than 2,700 HUD-approved housing counseling agencies which are located in urban, rural and suburban communities across all 50 states. It is estimated that there is at least one HUD counseling agency in one-third of all counties in the U.S. These counselors provide in-person and over-the-phone counseling as well as individual and group sessions.

HUD made awards to over 500 grantees using the funds from FY2010 appropriations. Many of these housing counselors are located in states and communities hard hit by the housing crisis.

Counseling Agency Clients are Racially and Ethnically Diverse

HUD-approved housing counseling agencies serve a broad demographic. Households receiving assistance represent individuals from all racial and ethnic backgrounds -- including those disproportionately impacted by the foreclosure crisis and targeted for fraud.

Since 2005, approximately 48.5% of those receiving assistance and who selected race, self-identified as racial minorities.

Race	Percent (of those reporting race)
African American/Black	37.4
American Indian/Alaskan Native	1.3
Asian	2.9
Hawaiian Native/Pacific Islander	.6
Other	6.2
White	51.5

Since 2006, 22% of households receiving HUD-approved housing counseling agency assistance have identified themselves as Hispanic.

Housing Counseling Primarily Utilized by Individuals with Low or Moderate Incomes

HUD-approved housing counseling agencies primarily serve individuals with modest incomes. Many clients who turn to housing counselors have nowhere else to turn and insufficient resources to hire a financial adviser. For these clients, HUD-approved housing counseling agencies provide critical consumer protections they would not otherwise receive. Between 2006 and 2010, nearly 75% of households receiving assistance had incomes below 80% of their Area Median Income (AMI).

However, assistance is not limited exclusively to families with low or moderate incomes. In fact, as the foreclosure crisis has intensified, HUD-approved counseling agencies experienced an increase in the number of clients with incomes over 100% of AMI. Between 2006 and 2010, the percentage of those individuals grew from 8.5% to 12.8%.

Housing Counseling Works

There is strong evidence that housing counseling can be an effective intervention in reducing mortgage delinquency and foreclosure, helping first-time homebuyers access and sustain homeownership, and helping seniors continue to live independently in their homes.

- ***Foreclosure Prevention Counseling***: A nationwide Urban Institute study by Mayer, et, al., (2010)[1] of the National Foreclosure Mitigation Counseling Program found that borrowers in foreclosure were 70 percent more likely to get up to date on payments if they received the counseling. The same Urban Institute study showed that homeowners who received a mortgage modification to resolve a serious delinquency were 45 percent more likely to sustain that modification if it was obtained with the help of counseling.

[1] Mayer, Neil, Peter A. Tatian, Kenneth Temkin, and Charles A. Calhoun. 2010. "National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Effects," The Urban Institute, December.

HUD has contracted with Abt Associates to conduct a housing counseling outcome evaluation. The study examines the counseling services received and housing counseling outcomes achieved by a representative sample of foreclosure mitigation counseling clients who received services from HUD-funded housing counseling agencies between August and December 2009. Preliminary finds from the study reveal that of the clients followed for 18 months after they first sought foreclosure prevention counseling, the vast majority (84 percent) were still living in their homes. Of those clients still living in their homes, 67 percent were current on their mortgages. The final report is expected at the end of November 2011.

- ***Pre-purchase Counseling***. Most studies have found that pre-purchase counseling leads to positive results, reducing delinquency anywhere from 19 to 50 percent. A widely cited study by Hirad and Zorn (2001)[2] found that face-to-face counseling was the most effective mode of delivering counseling, resulting in a 34 percent reduction in delinquency for participating homeowners. HUD's Office of Policy Development and Research is also leading a new study in which the Department will implement a controlled experiment to measure the impact of pre-purchase counseling on a random sample of pre-purchase counselees over time. HUD will work with large national lenders at the prequalification stage and randomly assign their customers to one of several forms of counseling or control treatments.

- ***Seniors*** - Counseling has protected thousands of seniors from scams and is a requirement for HECM loans. Studies by the National Council on the Aging (2005) and Met Life Mature Market Institute (2009) show seniors may be able to live independently for a long time by combining private resources (including reverse mortgages) with public benefits to which they may be entitled.

Housing Counseling Grant Outcomes

The following chart displays HUD housing counseling grant outcomes through 3 quarters of FY 2011 for three counseling services - foreclosure prevention counseling, pre-purchase counseling and reverse mortgage counseling.

[2] Hirad, Abdighani, and Peter M. Zorn. 2001. "A little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling."

FY 2011 Housing Counseling Grant Outcomes (Through 3rd Quarter)

Foreclosure Prevention Counseling		
Brought mortgage current	15,571	12%
Mortgage modified	11,166	8%
Entered debt management plan	4,797	4%
Forbearance agreement/repayment plan	5,016	4%
Mortgage refinanced	816	1%
Pre-foreclosure sale	1,228	1%
Executed deed-in-lieu	105	0%
Obtained partial claim loan from FHA lender	85	0%
Received second mortgage	0	0%
Sold property and chose alternative housing	242	0%
Declared bankruptcy	2,229	2%
Mortgage foreclosed	1,716	1%
Referred for legal assistance	3,938	3%
Referred to other social service agency or emergency assistance agency	8,493	6%
Currently receiving counseling	66,091	49%
Withdrew	7,051	5%
Other	5,814	4%
Pre-Purchase Counseling		
Purchased home	11305	12%
Mortgage Ready within 90 days	12295	13%
Mortgage ready within 90 to 180 days	12171	13%
Receiving long-term (> 180 days) counseling	17071	18%
Entered Lease Purchase Contract	128	0%
Decided not to purchase housing; no further effort	4170	4%
Withdrew	1598	2%
Other	35026	7%
Reverse Mortgage Counseling		
Obtained FHA HECM	7668	70%
Decided not to obtain reverse mortgage	3039	28%
Obtained non-FHA reverse mortgage	241	2%

How HUD is improving the Housing Counseling Program

Speeding the Awards Process

Historically, running the grant competition and obligating 100 percent of the housing counseling grant funds has taken approximately 240 days (eight months) from the time appropriations are made, meaning that grant funds are typically not available to housing counseling agencies until the following fiscal year.

However, HUD has developed a Department-wide plan to streamline its processes and reduce that timeframe to 180 days, which means taxpayer dollars will be used to provide counseling services to families in the same fiscal year appropriations are made.

Department Wide Improvements

- **Early Clearance:** HUD is working to streamline its clearance processes Department wide so that Notices of Funding Availability (NOFAs) are published to Grants.gov as quickly as possible after appropriations are made. Through these efforts, HUD has reduced the average number of days between appropriations and NOFA publication from 338 days in FY 2010 to 60 days in FY 2011, an 82 percent reduction. This reduction is in part a result of the Department's efforts to publish as many of the FY 11 NOFAs as possible within the Fiscal Year, notwithstanding the fact that the final appropriations numbers did not become available until April. Going forward, as described earlier, we are committed to the 180 day timeframe.
- **Performance Tracking:** HUD will use HUDStat, HUD's performance measurement and accountability process, to track its progress in meeting NOFA clearance and funds obligation deadlines. The results will be shared with the Secretary and his Senior Team on a weekly basis.

Housing Counseling Specific Improvements

- **Earlier Drafting and Publication of Housing Counseling NOFA.** Rather than beginning the NOFA drafting process at the beginning of the fiscal year, or at the point of appropriation, HUD will draft its housing counseling NOFA prior to the start of the fiscal year based upon the proposed budget set forth by the administration, with any modifications required by the appropriations bill completed soon thereafter.
- **Streamlined Application for High Performing Agencies:** Future housing counseling NOFAs will solicit a streamlined application from high performing applicants that have a history of strong scoring applications and no compliance issues. This streamlined application will reduce the application workload for numerous housing counseling agency applicants and reduce the amount of time required for HUD to score applications.
- **Shorter Timeline for Obligation:** The time it takes to obligate grants to awardees will be minimized in future NOFAs by moving up the point of obligation to a single signature on the grant agreement by an authorized HUD official.

Protecting Taxpayer Investments

HUD monitors counseling agency compliance with programmatic requirements through onsite reviews, audits, and other agency-specific monitoring activities. Onsite performance reviews are HUD's primary method for ensuring that participating agencies are in compliance with HUD policy directives and other applicable regulations. HUD staff use a Standard Operating Procedures (SOP) manual and checklist to monitor the agency's compliance with programmatic requirements, evaluate the quality of the services provided, and provide technical assistance. The results of the agency's performance review serves as the basis for which HUD renews the agency's HUD approval. In FY 2010, HUD conducted onsite reviews of more than 500 agencies.

As a result of this oversight, approximately 6 housing counseling agencies are terminated from the Program annually for failure to comply with programmatic requirements. Many more either rectify HUD's concerns with the help of HUD technical assistance or voluntarily withdraw from the program.

HUD has initiated several significant changes to its oversight of approved housing counseling agencies, which will better align and focus HUD's limited resources. These include:

- **The Development of a Risk Model:** HUD plans to more effectively and efficiently target limited oversight resources by developing a risk model within its Housing Counseling System (HCS). This model will use input from various sources to produce a real-time risk score for agencies in the Program.

- **Provision of Technical Assistance to New Agencies:** HUD plans to expand its webpage to provide technical assistance to help organizations develop housing counseling programs and pursue HUD approval, satisfying a mandate of the Dodd-Frank Act.

- **Utilization of Remote Monitoring:** For those agencies not receiving an onsite review, or for agencies perceived as lower risk, HUD plans to implement a new remote monitoring process through which HUD will access client files electronically through the Client Management Systems (CMS) used by participating HCAs. This type of remote monitoring can occur from any location, so HUD will be able to better distribute oversight workload among HUD staff across the nation. It will also allow HUD to monitor agencies even when staff and travel resources do not permit on-site monitoring visits.

- **Intermediary Financial Oversight:** HUD has also enhanced its oversight of national intermediary organizations. A national accounting firm has been contracted by the Department to perform financial and quality control reviews of national intermediary during fiscal years 2011 and 2012. The firm has sent a team to half of the program's 28 intermediaries, and will review the remaining 14 in FY 2012. The firm evaluates the organization's financial and administrative controls and its compliance with federal financial and administrative requirements outlined in OMB Circulars A-110, A-122, A-133, and 24 CFR Part 84. This new level of oversight will further help ensure that the programs key partners comply with program requirements and that housing counseling funding is spent responsibly.

Approving Agencies and Counselors

Currently, with the exception of Reverse Mortgage Counselors, HUD approves counseling agencies, not individual counselors. These agencies are able to participate in the Housing Counseling Program by applying to HUD for approval, or affiliating themselves with a HUD-approved intermediary or State Housing Finance Agency. Key approval criteria include nonprofit status, experience, sufficient resources for client referrals, and training and knowledge of HUD programs, the local housing market and counseling best practices.

In response to the Dodd-Frank Act, HUD is initiating rulemaking in order to implement procedures through which individual counselors will be approved after demonstrating sufficient training and passing an exam. This fundamental change, which will also require adherence to HUD housing counseling standards, will further ensure the quality of the housing counseling services available through the Program.

Improving Data Collection

Beginning in FY 2012, HUD plans to collect client level data including family size, year of birth, highest level of education, credit score, client zip code, loan type, etc. This new data will provide HUD with the capacity to track counseling recipients over time and evaluate counseling outcomes by demographic group. HUD also plans to use the client level data to track counseling outcomes by other pertinent factors, such as geographic region, overight procedure employed (onsite or remote), and category of counseling agency.

Housing Counseling Grants

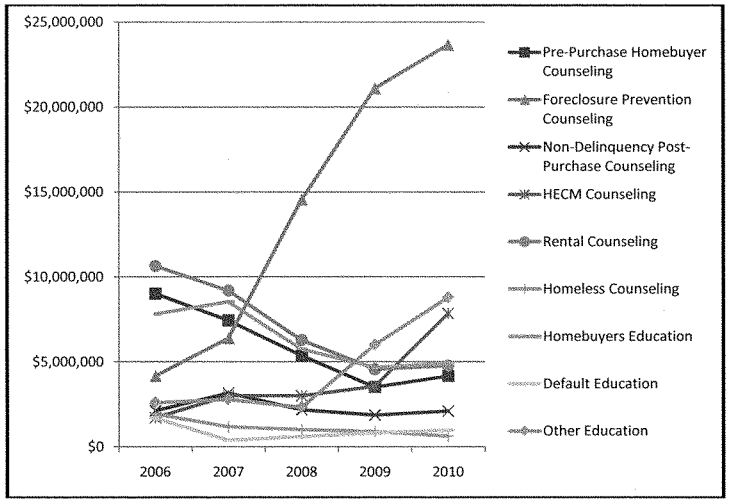
On an annual basis, and dependent upon requisite appropriations, HUD provides grants to approximately 450 agencies, including LHCAs, MSOs, SHFAs and Intermediaries through a grant competition, the Housing Counseling Notice of Funding Availability (NOFA). Large scale grantees, like State Housing Finance Agencies and Intermediaries, sub-grant most of their funding to affiliates and branches within their housing counseling networks. In this manner, approximately 2,000 of the 2,700 participating housing counseling agencies receive HUD funding, either directly from HUD or indirectly through an SHFA or Intermediary.

The following charts are an estimate of the amount of appropriated funds spent directly on provision of the various types of counseling services for the past 5 appropriations years.

Grant Spending By Counseling Type (Appropriation Year)

	2006		2007		2008		2009		2010	
Counseling Type	HUD Funds Spent		HUD Funds Spent		HUD Funds Spent		HUD Funds Spent		HUD Funds Spent	
Pre-Purchase Homebuyer Counseling	$9,007,915	21.6%	$7,443,737	19.0%	$5,365,118	13.1%	$3,519,129	7.5%	$4,166,070	7.2%
Foreclosure Prevention Counseling	$4,167,747	10.0%	$6,391,330	16.4%	$14,555,416	35.4%	$21,083,873	44.9%	$23,651,695	40.9%
Non-Delinquency Post-Purchase Counseling	$2,113,440	5.1%	$3,171,346	8.1%	$2,174,900	5.3%	$1,864,080	4.0%	$2,092,926	3.6%
HECM Counseling	$1,706,956	4.1%	$3,000,000	7.7%	$3,000,000	7.3%	$3,559,450	7.6%	$7,846,300	13.6%
Rental Counseling	$10,639,070	25.5%	$9,194,038	23.5%	$6,290,452	15.3%	$4,570,359	9.7%	$4,778,716	8.3%
Homeless Counseling	$1,926,256	4.6%	$1,173,567	3.0%	$1,012,852	2.5%	$896,029	1.9%	$627,718	1.1%
Homebuyers Education	$7,824,950	18.8%	$8,530,225	21.8%	$5,748,767	14.0%	$4,675,492	9.9%	$4,925,884	8.5%
Default Education	$1,687,726	4.1%	$388,787	1.0%	$596,659	1.5%	$816,067	1.7%	$972,361	1.7%
Other Education	$2,589,940	6.2%	$2,786,970	7.1%	$2,318,298	5.6%	$6,007,476	12.8%	$8,788,329	15.2%
TOTAL	$41,664,000		$39,080,000		$41,062,461		$46,991,954		$57,850,000	

Grant Spending By Counseling Type (Appropriation Year)



Office of Housing Counseling

The Dodd-Frank Wall Street Reform and Consumer Protection Act (PL 111-203) required HUD to establish an Office of Housing Counseling. HUD is working diligently to establish this new Office with an organizational and staffing structure conducive to addressing the provisions of the Act. HUD has undertaken a process to analyze housing counseling related tasks, anticipated volume of activity, and corresponding staffing allocations.

The Department is currently using this analysis to formulate a structure for the new Office. Soon, HUD will submit a formal reorganization request for Congressional review and approval. After obtaining Congressional approval, HUD will initiate requisite administrative processes, including union negotiations, staff reassignments, and competitive hiring for key positions.

In addition to establishing a new Office, the Act also requires HUD to create an Advisory Committee that will guide the new Office. Efforts are underway to carry out this mandate as well.

Conclusion

HUD's Housing Counseling Assistance Program delivers real results for consumers, communities, and American taxpayers. I am confident that the changes we are making will ensure that HUD's Housing Counseling Program is poised to efficiently and effectively provide services that are important to stemming the nation's foreclosure crisis, facilitating the recovery of the housing market, and preventing future housing crises.

This program has far-reaching effects throughout our economy, and the services it supports will continue to be vital to the ongoing recovery. Housing choices are typically some of the most costly and important decisions households must make. When families are equipped with the information they need to make the best decisions possible, it not only benefits an individual family, but also their neighborhood, their community, and the nation.

Therefore, I look forward to working with this Subcommittee to ensure HUD's Housing Counseling Assistance Program continues to yield benefits for the communities you represent.

Thank you. I would be pleased to take your questions.

House Financial Services Committee

Subcommittee on Insurance, Housing and Community Opportunity

Hearing

HUD and NeighborWorks Housing Counseling Oversight

The Honorable Debra Olson

Board Member

DuPage County, Illinois

and Volunteer Interim Executive Director

DuPage Homeownership Center

On behalf of the

National Association of Counties (NACo)

September 14, 2011

Chairman Biggert, Ranking Member Gutierrez and members of the Financial Services Subcommittee on Insurance Housing and Community Opportunity. My Name is Debra Olson and I am a DuPage County, Illinois Board Member, and member of the National Association of Counties (NACo) Community and Economic Development Steering Committee. I thank you for the opportunity to testify at this important oversight hearing on the U.S. Department of Housing and Urban Development - Housing Counseling Program. It is my privilege to represent NACo and our President, Athens County, Ohio Commissioner Lenny Eliason, here today. We appreciate Chairman Biggert holding a hearing on housing counseling programs, which provide county residents with vital services to educate them about rental options, mortgages, and prevent foreclosures.

NACo, the only national organization representing America's 3068 counties, supports housing counseling programs, which provide vital services to county residents particularly in this stalled housing market and difficult economy. The declining housing market has led to increased foreclosures and declining home values across the country, which has negatively impacted local communities and county revenues. There have been significant drops in property values and property tax collections in numerous counties. Low property values caused by foreclosed homes have led to a smaller tax base, and budget shortfalls. Declining revenues have resulted in many counties cutting public services and assistance that benefit residents. Housing counseling programs provide valuable services to local residents, if they are trustworthy. HUD-certified counseling agencies help ensure that county residents are getting accurate information and helpful and effective services, which can mean the difference between homeowners saving or losing their homes.

The HUD Housing Counseling program certifies counseling agencies that educate county residents who are homeowners, first-time homebuyers or renters. This education allows residents to make informed decisions about mortgages and rental payments. These services are primarily offered free of charge by counties and non-profit organizations, thanks in part to federal funding. This can be the determining factor in whether a potential homebuyer knows if they are ready to buy or rent and also assist homeowners who are considering refinancing or reverse mortgages. Counseling may involve providing other options to the homeowner including short sales or locating alternative housing. Taking the guess work out and empowering residents with information makes the process better for all involved. Counties know these services prevent foreclosures and help homeowners make better decisions in a process that can be overwhelming for many.

This year, NACo published an Issue Brief on Foreclosures – *The Fall and Rise of Neighborhoods in Counties across the Country*, to ensure county officials and housing specialists are aware of the various resources that are available to reduce foreclosures and assist their communities and neighborhoods in recovering from the foreclosure crisis. The brief highlights the importance of homeowners to contact a HUD approved housing counseling agency for help working with the lender and/or county agency when potentially facing foreclosure. Many counties have HUD certified housing counseling programs that have had much success in assisting homeowners with foreclosure issues.

In June 2008, NACo conducted a survey of large urban counties to determine the extent of the foreclosures, and the impact that foreclosures and the economic downturn have had on their local economies. Approximately 96% of the county officials that responded (22% of 122 counties) reported an increase in home foreclosures during that last year. Approximately 36%

reported that they had experienced 50% or more increases in foreclosures. Approximately 56% of the respondents reported that housing values in their counties had declined as a result of foreclosures, and 52% indicated that they are experiencing revenue shortfalls as a result of either foreclosures or declining home values.

In 2005, Washtenaw County, Michigan expanded their tax foreclosure prevention program to include mortgage foreclosure prevention offered through Michigan State University and the county authorized hiring and training of HUD certified housing counselors. The program received 1241 calls last year, more than 60% of all foreclosures initiated. Nearly 500 customers received full counseling and the county successfully prevented foreclosure for 57% of those families that completed work-out mortgage modifications. The Community and Economic Development Association of Cook County (CEDA) has provided information and education to two thousand residents in suburban Cook County this past year. The funding cuts to the HUD housing counseling program this past year have been difficult, compounded by recent cuts in Community Development Block Grant funding, which many local governments provide funds for counseling agencies. CEDA like many, have relied more on NeighborWorks for extra assistance and support. However, these funds do not cover pre-purchase and reverse mortgage counseling, and some counseling agencies may have closed due to loss of federal funding.

DuPage County has seen similar statistics. According to Realty Trac, Illinois has among the highest foreclosure rates in the US (5th of the 50 states), and DuPage foreclosure rates as a ratio of homeownership are among the highest in the state (8th of 102 counties). Statistics showing the increase in foreclosures puts DuPage County second only to Cook County in new foreclosures each month. In 2010, foreclosure filings were 19.8% greater than in 2009 and this

trend has continued in 2011 (Woodstock Institute). Again, according to Realty Trac, in July 2011 in DuPage, 8,589 houses were in some stage of foreclosure.

DuPage County partnered with the DuPage Homeownership Center (DHOC), the only HUD-certified housing counseling agency in DuPage providing comprehensive housing counseling services, to develop an innovative approach to address foreclosures – putting a HUD-certified housing counselor in the foreclosure courtroom. Though services are not directly provided, it is a point of contact so that families know there are foreclosure prevention and other resources available they may not have known about previously. The response has been significant.

The DuPage Homeownership Center provided services to 2,572 families in its Fiscal Year 2011. Of those, 833 households were in some state of default, many more in imminent threat of default. Those families received foreclosure prevention education through a two-hour workshop, and then attended one-on-one counseling services afterward. During FY 2011, 279 families prevented foreclosure. Many more continue in counseling, and new families knock on the door or come through the Counselor in the Court program every day. Though DHOC has received NFMC grants as well as HUD grants, the significant cut in HUD funding is jeopardizing DHOC's ability to provide services to these thousands of people in DuPage. And there is no one to pick up that slack.

I have volunteered and served on the Board of Directors of the DuPage Homeownership Center, and am currently serving as the volunteer Interim Executive Director. DHOC is a nonprofit organization whose mission is to provide a full range of services to promote responsible, sustainable home ownership with emphasis on serving first time homebuyers, low and moderate income households, and homeowners in crisis. DHOC was created in 1991 as a

result of a DuPage County Affordable Housing Task Force Project and is certified by the U.S. Department of Housing and Urban Development to provide pre-purchase and default counseling and reverse mortgage counseling through membership in the HUD-HECM National Counseling Network.

DHOC has a national reputation for excellence. We have received awards from the National Association of Realtors and Mortgage Bankers Association, and our programs have been profiled in six national best practices publications, including President Clinton's 1995 National Homeownership Strategy. In 2007, DHOC was named the Notable not-for-profit Organization of the Year at the DuPage Business Ledger's Annual Awards for Business Excellence. We assess a homeowner's financial situation and provide realistic solutions and objective guidance. We contact lenders on behalf of homeowners to explore the option of mortgage modification or work out other options. We also locate community services that can provide food, energy assistance and meet other needs, and develop a realistic budget to move families through financial difficulties.

DHOC believes in strong accountability. We have annual financial audits by an independent accounting firm and biennial on-site performance reviews by HUD. We use a customized MS access database to track all of our counseling clients, thus enabling us to provide quantitative performance measures. In addition, we provide satisfaction surveys to all clients upon completion of services and use this feedback to refine and improve our services. Our surveys consistently come back with 95% client satisfaction ratings.

Perhaps more now than ever, there is a need for comprehensive, federally-funded housing counseling services. Plunging home prices, the foreclosure tidal wave, and the anemic housing

market have been identified as critical elements in the ailing economy. Proposals to aggressively address the foreclosure process and abandoned properties are numerous. President Obama's recent jobs package includes proposals to rehab foreclosed and abandoned properties for resale or rent. However, a critical missing component in any of these proposals is housing counseling – financial literacy, financial recovery, homebuyer education and foreclosure prevention.

The Homelessness Prevention and Rapid Re-housing program administered by counties has achieved impressive outcomes. In DuPage, 100% of the households in the program received housing stabilization services, including rental assistance and utility assistance. Large portions of participants included minorities, seniors and children, and 94% left the program with permanent housing solutions. A key component of the program was housing counseling provided by a HUD-certified agency.

On the local agency side, of the 2,322 foreclosure clients the DuPage Homeownership Center has counseled since the beginning of the housing market melt-down in 2007, only 263 had any homebuyer education before purchasing their home. Conversely, of the 515 families that purchased homes through DHOC's Homestead program- a partnership with Illinois Housing Development Authority, DuPage County, and local area lenders to provide for a special financing program for low-income households, only 2 have defaulted, one of which was for a catastrophic health situation. No lender can boast that kind of statistic. All of those families went through rigorous, HUD-compliant homebuyer education and pre-purchase counseling, and had two years of post-purchase counseling available to them as well. Through HUD grants, all of these services have been available free of charge.

An ounce of prevention is worth a pound of cure; yet pre-purchase counseling and homebuyer education has been defunded for 2011 and funding was not restored in the House Appropriations Subcommittee approved mark for Fiscal Year 2012 Housing and Urban Development (HUD) Appropriations. Reverse mortgage counseling has also been impacted, which means some local agencies will be forced to charge cash-poor senior citizens for these counseling services which are required by law. Reverse mortgages allow seniors who have equity in their home to use that equity to remain in their home, so this places a heavy burden on those vulnerable seniors.

Foreclosure prevention counseling has proven to be highly cost-effective. According to a report in Mortgage Daily News, the average cost of a foreclosure is $77,000. The average cost of foreclosure prevention is $3,300. DHOC helped 279 families prevent foreclosure in their FY 2011 alone, saving lenders, governments, communities, and homeowners in crisis over $20 million! The cost-effectiveness of foreclosure prevention counseling cannot be overstated.

For families who have unfortunately lost their homes and are now renters, financial recovery counseling is critical to repairing credit and learning budgeting principles to avoid unwise transactions and future catastrophes.

On the opposite end of the spectrum, many qualified households ready to purchase or looking to refinance with today's low interest rates are having difficulty getting through the process and are giving up because underwriters require pristine credit. There is a huge need for education on how to wisely use, build and maintain good credit. Young families who might otherwise be ready to purchase find themselves locked out of the market because they lacked knowledge to be prepared.

HUD and other agencies like the Illinois Housing Development Authority have required that local housing counseling agencies receiving grants provide eight hours of homebuyer education for potential clients. Counselors must also sign the Code of Ethics for NCHEC and commit to follow the National Industry Standards for Homeownership Education and Counseling. However, there are still today mortgage insurance companies requiring as little as one hour of homebuyer education from their clients, with no quality standards. This ongoing lack of accountability in the housing market is potentially perpetuating the inappropriate lending practices that contributed to the foreclosure crisis in the first place.

HUD's programs provide financial education for all. Services are unbiased, professional, certified, and do not sell a product or attempt to make a profit. These services create more responsible renters and sustainable homeownership, and financial stability as well as stability within communities. Specifically, HUD's programs assist families in crisis to stem the tide of foreclosure, allow seniors to remain in their home through a reverse mortgage, help people to determine their financial readiness for rental or home purchase and take charge of their financial future, and allow low-income populations to become more invested in their community through responsible and sustainable homeownership. HUD's housing counseling programs are an essential component of several other programs such as the Neighborhood Stabilization Program, Family Self-Sufficiency, HECM, and Homeless Prevention and Rapid Re-housing.

HUD's housing counseling programs impose Standards of Certification on participating agencies, resulting in professional, accurate, reliable information for renters, homebuyers, and families in crisis. These federally-funded services are accessible to all, regardless of age, race, or income. As a government official who looks for the most effective and efficient use of tax dollars, I have learned that the cost of housing counseling services is a fraction of the cost of

foreclosure, blight, homelessness, children and seniors in unstable or high-risk environments. De-funding housing counseling services as this point is counter-productive to long-term resolution of the economic problems we face today, and prevention of re-occurrence in the future.

DuPage County applauds strict enforcement of the Standards of Certification to hold agencies accountable and give Congress and consumers confidence their tax dollars are being spent wisely. We support stringent compliance with National Industry Standards for Homebuyer Education and Counseling for grant awards. HUD's competitive grant process ensures organizations who participate will meet and exceed mandated goals or not receive more grants. Reporting requirements and third-party audits maintain accountability of local organizations. There are too many lenders providing loans to consumers with too little proficiency.

NACo, DuPage County and other local agencies providing these critical housing counseling services day in and day out implore you to improve HUD's programs, not gut them. Housing counseling services are a critical component to the recovery of our economy, the housing market, and families in crisis. Bringing all housing counseling under one umbrella allows the best practices to be preserved and needed changes to be made. Creating uniform and streamlined grant-writing, reporting and billing processes (rather than different applications, data for reporting, and types of client billing for each program) can achieve greater efficiency at the ground level, allowing more dollars to be spent on services and fewer dollars spent on administrative time. At this critical time in our history, housing counseling is a wise investment for economic recovery.

Witness Testimony: Raul I. Raymundo to the United States House of Representative Committee on Financial Services, September 14, 2011

Good morning. My name is Raul Raymundo, and I am co-founder and CEO of The Resurrection Project, a community-based nonprofit serving primarily Latino neighborhoods on Chicago's southwest side. The Resurrection Project is also a proud affiliate of National Council of La Raza and I currently chair the National Association of Latino Community Asset Builders. I would like to thank Chairman Biggert and Ranking Member Gutierrez for inviting me to speak with you today about the impact that HUD housing counseling has had on the families in our community. In 1990, TRP began a with $30,000 seed capital investment in 1990 from area parishes. Today, The Resurrection Project has leveraged over $200 million in community reinvestment through its comprehensive community revitalization efforts, a cornerstone of which is housing counseling. As a HUD housing counseling agency, we have empowered families with knowledge about the right way to purchase a home and have armed them against predatory lenders.

Our housing counseling and financial education directly help families purchase homes, avoid foreclosure, establish credit and savings, and overall, make more informed decisions about their personal finances. Last year, The Resurrection Project's housing counselors served over 2,700 families, including 212 in pre-purchase, 755 in foreclosure, and 1,144 in basic financial literacy education. Also in 2010, 22 families working with our housing counselors successfully purchased a home, resulting in an estimated $3.5 million in community investment.

The families we serve on Chicago's southwest sides and western suburbs have been hit hard in this Great Recession, which many say was caused directly by the housing bubble (and subsequent burst). Our communities of color have suffered from these economic straits at disproportionate rates to the general population. In fact, a Pew Study recently indicated that our communities of color lost far more wealth in the Great Recession than the general public, as a result of "banking" on what used to be a secure investment—owning a part of the American dream through homeownership.[1] Today, unemployment and foreclosure rates show no signs of declining in these communities. The HUD counseling support we provide to families is often the only thing that helps to soften the landing that many of these families are experiencing.

As director of a HUD-approved housing counseling agency, I cannot imagine how much worse things could have been in our communities if we had not received HUD counseling support over the past 5 years.

Since 2006, HUD housing counseling organizations, including The Resurrection Project, have assisted over 11 million households in the following areas:

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[1] **"Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics"**, Pew Research Center, July 26, 2011

- Pre-purchase counseling & education for more than 2.5 million households of which nearly 600,000 purchased homes or became mortgage ready
- Counseling for more than 1.98 million renters and homeless individuals to resolve tenant issues or find shelter
- Post-purchase (non-foreclosure) counseling for over 1 million households
- Reverse mortgage counseling for over 430,000 senior homeowners
- Foreclosure counseling to 3.9 million homeowners (with 1 million funded by NFMC)[2]

Research shows evidence of lower default rates among individuals that receive pre-purchase and non-delinquency post-purchase counseling; some programs reduced mortgage default by as much as 34%.

Prior to the housing bubble bursting, HUD-approved agencies were appropriately counseling families and helping them to secure sustainable homeownership. At the same time, well-resourced predatory lending institutions were enticing hundreds of thousands of families into homes that they could not afford and were not prepared to purchase. Now, HUD counseling agencies find ourselves doing extra work with fewer resources to help clean up the mess left by the housing bubble and the predatory lending institutions.

As the foreclosure crisis wreaked havoc on communities of color, more counseling efforts--not less--are needed in neighborhood rehabilitation strategies that include sustainable loan modifications to help families avert foreclosure, stay in their homes, and return to the work of building healthier communities.

Counseling alone does not revitalize neighborhoods, but it is a cornerstone for comprehensive revitalization efforts. Currently, there is an incredible xcess inventory of housing units in the market. Many of the strategies being considered across this country to reduce such inventory is supply driven; i.e. ROE disposition of properties, short sales, and donations. The key to reducing this inventory should be demand-driven. In other words, we need to have well-prepared, well-qualified and educated buyers. It is shortsighted to think that preparing the next generation of homeowners will happen overnight. It's going to take time to build a new foundation, not just repair the old. Let me give an example of the foundation I am speaking about.

Sra. Abeja, a single mother of four, first heard about The Resurrection Project in 2000 when she was looking for rental housing for her family. Her dream was homeownership, but at the time she settled into one of our affordable apartment buildings to give her the time and space she needed to save money. Over the next 10 years, Sra. Abeja earned her Bachelor's degree, and eventually her Master's, and became a teacher in Chicago Public Schools. Finally, in 2006, sje started attending our homeownership workshops and receiving individual housing counseling to discuss the steps she needed to take in order to realize her dream of owning her own home. After many years of budgeting, saving, and learning the ins and outs of homeownership, Sra.

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[2] Coalition of HUD Housing Counseling Intermediaries, 05/18/11

Abeja purchased a single family home and in 2009, she and her family moved in to their 3-bedroom, 3-bathroom home.

The economic impact is clear: a significant investment in the community, a family building wealth and assets. Yet, we believe the social impact is just as important: a single mother providing a safe, high-quality home to her children—affordably, through the hard work of our counselors. Orelia's story is a special one, but it is not unique. The Resurrection Project and similar HUD approved counseling agencies across the Chicagoland area continue to help families like Orelia's work in manageable steps towards sustainable homeownership. Eliminating HUD funding for housing counseling would eliminate our capacity to facilitate these kinds of sustainable investments in the community – and these types of dreams coming true.

If the funding for HUD housing counseling were to be eliminated, the impact in our communities would be drastic. Without the ability to utilize HUD funding to run the program, or to leverage the HUD funding to raise further funds to keep the program afloat, our neighborhoods would suffer: homebuyers like Mrs. Obeja would not be able to receive the type of high-quality, individualized education that help prepare them for sustainable homeownership and prevent future foreclosures. Foreclosure rescue scams would be the rule of the day, and our constituents would spend their hard-earned assets on unsuccessful attempts to save their home. We are serving the most underserved communities, and a cut in HUD funding would all but eliminate the services we can provide to families like Mrs. Obeja's.

Based on a survey of HUD-certified housing counseling agencies conducted by Housing Action Illinois after the cuts became public on April 12, of the 27 responding agencies, 24 indicated that the cuts would force them to lay off staff and/or see fewer clients. Two agencies anticipated that they would be forced to shut down and two agencies were uncertain of the impact.

Further, at this tenuous point in the recession, it is imperative that we build a demand market to eliminate the glut of housing stock that is currently vacant due to the rampant foreclosure crisis. Housing counseling is crucial right now in order to build a better foundation to prepare families like Mrs Obeja, often first-time homebuyers, to buy these rehabilitated properties and jump start a demand market.

This market will in turn spur local economies, which will create much-needed jobs, which will in turn help revitalize not just local neighborhoods and cities, but our entire country. The HUD housing counseling dollars help leverage more than well-educated, prepared buyers—they leverage the consumer confidence needed to jump start our local economies.

Therefore, I urge Congress to restore the HUD housing counseling program funding, to diversify its housing counseling delivery network to better reflect the demographics of the housing crisis, and to expedite releasing of these funds. The sooner the dollars enter our communities, the sooner we can continue the work of economic recovery.

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