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THE MORE YOU KNOW, THE BETTER BUYER YOU BECOME: FINANCIAL LITERACY FOR TODAY'S HOMEBUYERS

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC POLICY

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

FINANCIAL LITERACY AND EDUCATION EFFORTS TARGETED TO BOTH FIRST TIME HOME BUYERS AND EXISTING HOME OWNERS AND TO IMPROVE ACCESSIBILITY TO EDUCATION PROGRAMS

THURSDAY, MAY 1, 2008

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C O N T E N T S

THURSDAY, MAY 1, 2008

WITNESSES

THE MORE YOU KNOW, THE BETTER BUYER YOU BECOME: FINANCIAL LITERACY FOR TODAY'S HOMEBUYERS

THURSDAY, MAY 1, 2008

U.S. SENATE,
SUBCOMMITTEE ON ECONOMIC POLICY,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 2:03 p.m., in room SD–538, Dirksen Senate Office Building, Senator Thomas R. Carper, (Chairman of the Subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN THOMAS R. CARPER

Chairman CARPER. The hearing will come to order.

I want to welcome warmly our three witnesses today. We have been joined by Senator Menendez from New Jersey. We will be joined, I am told, by Senator Jim Bunning a bit later, and others of our Members may drift in and out. I just checked in with our cloakroom to see if we are likely to have votes during this hearing, and I am told that we will not likely have votes. So we can just focus on what you have to say and listen to you or take in your words and ask you some questions. We are delighted that you are all here.

Our hearing today, as you will know, will focus on financial literacy and education efforts in our State and other States for both first-time homebuyers and for existing homeowners. The recent subprime mortgage crisis has put a spotlight on and has raised questions regarding the financial knowledge of homebuyers and homeowners. Buying a home is perhaps the most complicated financial transaction that most Americans will ever undertake. Studies have shown that most Americans lack a certain knowledge about the basics of buying a home.

Financial innovation is generally a good thing. We should encourage markets to become more efficient and better able to manage risk. However, the fundamentals of the game tend to remain constant. Potential homebuyers will always need to determine if buying a home makes financial sense.

Often, the potential homebuyer is not sure they are financially ready to buy a home or how much they can afford to borrow. Many times the homebuyer seeks advice from those also involved in the transaction, maybe the real estate agent, the real estate broker, perhaps the lender. And there is nothing wrong with soliciting the advice of brokers or lenders, but sometimes potential homebuyers need more than advice. Homebuyers need to know that they can and should meet with a qualified, independent counselor before starting down the path to homeownership.

It is often said that homeownership is the American dream. I have said that myself. I suspect my colleagues have, too. But for many Americans, that dream is fast becoming something of a nightmare. The real American dream is sustainable hospital.

Before sitting down with a lender, some homebuyers should meet with a qualified, independent counselor to look at their credit history, to examine how much debt they have, and to examine their income to determine whether they should remain a renter or whether they should purchase a home. The buyer also needs to have access to a counselor who can walk them through the many mortgage products available on the market. For some families, a fixed-rate product is best, and for some families, an adjustable-rate mortgage is better. The best decision depends on the buyer's personal circumstances. However, the buyer should look at their ability to repay the loan regardless of changes in interest rates.

Again, these are things that a potential homebuyer should examine before purchasing a home. The more we know, the better buyer we become.

Financial education is not stopped once a home is purchased. New homeowners receive a number of solicitations every day in the mail. They used to receive them every day on the phone as well. But some of these mailings urge the new homebuyers to refinance at a much lower rate and have some cash left over. Refinancing a mortgage can make great financial sense, but a homeowner needs to look at more than the new interest rate or how much cash they can pocket. Homeowners should also seek the advice of an independent, qualified counselor if they have questions about the pros and about the cons of refinancing.

Many of the subprime loans now currently in foreclosure were refinanced. The homeowner started off with a fixed-rate mortgage, but opted for the exotic mortgage to pay less in the short term and get cash out of their home. As a result, many homeowners, too many homeowners, have little or no equity in a home that they can no longer afford because their adjustable-rate mortgage is due to reset to a much higher rate. Many of these homeowners must now try to get back to a fixed-rate product in order to keep their homes and to avoid foreclosure.

On April 10th, the Senate passed the Foreclosure Prevention Act of 2008, which included some $100 million for housing counseling. We will hear today from our witnesses about the state of our Nation's financial education. I hope we will hear testimony on not only the importance of financial education, but also on ways to improve the many literacy programs around our country. I also hope that we will hear how it can make financial education more accessible.

Before I introduce our witnesses, let me yield to Senator Menendez and just say we are delighted you are here. Thank you so much for coming.

STATEMENT OF SENATOR BOB MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman, and thank you for holding what I think is a very important hearing. I really think it should be packed, as we have had other hearings packed, because at the end of the day—we are here. Don't worry about it.

[Laughter.]

But the reality is this is at the root of a lot of our challenges, and I really appreciate your leadership in bringing this up, because as we continue to work to help homeowners who are suffering from the subprime meltdown, I think it is equally important that we look at why so many Americans ended up entangled in mortgages that they could not afford in the first place.

Over the last year, we have examined a number of factors that contributed to the crisis, and while there is no single specific cause, the lack of financial literacy is clearly at the top of the list.

Let's be honest. I think no one knowingly accepts a bad deal. More often than not, they are misled into something they do not understand or led into an arrangement that sounds good but is not. And despite this, we have heard time and time again that because people signed agreements that they could not afford to pay, they are somehow accomplices, not victims. I think this assessment generally is not just wrong, but it is offensive. The vast majority of people facing foreclosure are in my mind, as I see it in my office increasingly, victims of unscrupulous mortgage lenders who really got snookered into contracts they did not understand. And the reason so many lenders were able to get away with it is because financial literacy in this country is below what it should be.

Mr. Chairman, in a recent banking hearing, I asked our witnesses to gauge the average American's financial literacy on a scale of 1 to 100, and across the spectrum, they gave me all low scores, something along the lines of 20 or 30. Well, 20 or 30 in making the major financial decisions of our lives is not a good score. We are talking about people trying to understand what they are signing.

When I used to practice law, Mr. Chairman, I would go to great pains to describe to individuals who are entering for what them is probably the single financial transaction of their lives, purchasing of a home, what it is that they were getting into, both in their contract in the first place, what were the contingencies, what were the challenges, and in their mortgage commitments, what they were getting into there. And, generally, they did not know. It was only because of something that I saw as a responsibility to do, which I would say many of my colleagues did not necessarily spend as much time in telling their client what, in fact, they were getting into. They depended upon the mortgage lender or the broker to do that. But, in fact, these people were not getting the right information.

How many understand their credit card agreements? They are very complex. There are layers and layers—I am, you know, an attorney, a legislator. I get those multiple-page forms and look at it and say, "My God, how thick is it?" They are designed to be complex and to be difficult because the harder to read, the harder to understand, the easier it is for unscrupulous lenders to get away with higher rates, extra fees, and terms that are not what they seem.

There is no doubt that we have to punish predatory lenders who took advantage of homebuyers and tricked them into signing contracts they could not afford. But perhaps most importantly, what we need to do is arm the American people with the financial know-how so that they can continue to make—so they can ultimately make the right decisions.

Finally, Mr. Chairman, I have introduced a bill, the Financial Education Counseling Assistance Act, that would help Americans with more tools, especially those Americans most at risk of financial peril. The bill will help organizations such as NeighborWorks to expand financial counseling services and help new organizations offer these services. These are vital for people who need some financial assistance but who, like the majority of Americans, cannot afford to hire a personal adviser.

We have learned from the subprime crisis that often families in trouble hold on as long as they can until they are too deep in the hole to get out. We have also seen how a housing crisis not only takes people's homes away but their financial stability as well.

So I look forward to the discussion that is going to be held, and I appreciate all of our witnesses coming forth, especially Mr. Wade from NeighborWorks. We have worked with NeighborWorks quite a bit on counseling issues, and I certainly appreciate seeing Commissioner Raskin here, who I understand is a former Senator Sarbanes staffer, sat behind here, so you know what this is all about, what is going on up here.

Thank you, Mr. Chairman.

Chairman CARPER. Thank you, Senator Menendez.

Senator Bunning, welcome.

STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. I apologize, Mr. Chairman. I had a group from Kentucky and I could not get away, and I am sorry I was late, but I——

Chairman CARPER. We understand.

Senator BUNNING. Thank you for holding this hearing. Today's topic is obviously very timely. We only need to look at what has happened in the housing market over the last few years—more than a few, to know how important financial education is for homebuyers.

There is a role for Government in protecting investors, but homebuyers must also arm themselves with information about financial services. And our school system, God rest it, ought to be able to help out here. We do not have good financial literacy being taught in our school systems. And I say that as a grandfather of 39 kids that they better learn what is going on when they get to the world and have to live in it and buy homes, because everybody wants to buy a home.

I have some doubt that Government can be both a neutral and effective financial educator without giving consumers a false sense of security. We do not want to do that. We want to make sure that they are armed, or at least are wise enough to arm themselves with somebody who, like Bob just said, knows what the heck is in that contract or is in that mortgage or in whatever they are required to sign.

I hope we can shed some light on resources available to new and repeated homebuyers in today's market. Maybe you and I will even learn something today, Mr. Chairman. I look forward to hearing from our panel of witnesses. Thank you all for being here.

Chairman CARPER. Senator Bunning, thank you.

The first thing I would like to learn is when you have 39 grandchildren, how do you remember everybody's name?

Senator BUNNING. My wife has a great memory.

Chairman CARPER. God bless her. All right. We are delighted you are here. It is good to be with you.

Let me just provide a brief introduction for our witnesses and start off by saying to Sarah Bloom Raskin, Commissioner, welcome, welcome back, currently the Commissioner of Financial Regulations for the State of Maryland. I understand you are here today representing the Conference of State Bank Supervisors. As Senator Menendez has suggested, you are not a stranger to this Committee. How long did you serve here on the staff when Senator Sarbanes was here?

Ms. RASKIN. About 4½ years.

Chairman CARPER. OK, 4½ years. All right. We are glad you are back. It is a testimony to your legacy and to his legacy that you are now the Banking Commissioner for the State of Maryland. Congratulations. How long have you been in that post?

Ms. RASKIN. Only since August 28th.

Chairman CARPER. All right. Good enough.

Ms. RASKIN. It feels like an eternity.

[Laughter.]

Chairman CARPER. I guess it does these days.

Kenneth Wade, Kenneth D. Wade, Chief Executive Officer of NeighborWorks, and someone who was kind enough to come to our State—I want to say 1 or 2 years ago—when a nonprofit called INCALL, which is part of NeighborWorks' national network, was celebrating their anniversary, and we very much appreciated your coming there on that occasion. But as we all know, NeighborWorks America is a public nonprofit corporation established as the Neighborhood Investment Corporation by an act of Congress in 1978, and its Board of Directors includes a number of senior people in the Federal Government, as I recall. It is an interesting structure there.

Ronni Cohen—all the actual words on this sheet of paper that are said about you, they do not begin to tell the story, but currently the Executive Director of the Delaware Money School. The Money School is part of the Delaware Financial Literacy Institute, which was created by our State Treasurer, Jack Markell. And for my colleagues, I would also say that Ronni Cohen is also one of the finest educators that we have had in Delaware in the last several decades. And every year in our State, as I am sure in your States, we have teachers that are nominated to be Teacher of the Year, and we have 19 school districts, so we have 19 nominees each year, and Ronni Cohen was selected as our Teacher of the Year, I want to say about 8 or 9 years ago.

Ms. RASKIN. Exactly.

Chairman CARPER. And I was privileged to be there as Governor, I believe, when the presentation was made. But when we are trying to think about how to better educate people young and not so young with respect to financial literacy, we probably could not have anybody better at the table or in the venues than you. So thank you so much for coming today.

Commissioner Raskin, I am going to recognize you. I want to say take no more than 30 minutes for your opening statement.

[Laughter.]

Chairman CARPER. No. We are not going to be real tight on the clock today. I do not think we have any votes, so if you go over 10 minutes, we will probably rein you in, but your entire statement will be made part of the record. Thank you for joining us.

STATEMENT OF SARAH BLOOM RASKIN, STATE OF MARYLAND COMMISSIONER OF FINANCIAL REGULATION, ON BEHALF OF THE CONFERENCE OF STATE BANK SUPERVISORS

Ms. RASKIN. Well, thank you. Thank you for inviting me today, and good afternoon, Chairman Carper, Senator Bunning, Senator Menendez, and distinguished Members. My name is Sarah Bloom Raskin, and I serve as Commissioner of Financial Regulation for the State of Maryland. I am happy to be here today to testify on behalf of the Conference of State Bank Supervisors on the importance of financial literacy counseling for potential homebuyers and new mortgage borrowers.

Chairman Carper, I certainly do not need to tell you what an important role States have always played in the development and oversight of essential financial services in our country. Your understanding and support of the State's role in financial regulation is well known and longstanding, and we deeply appreciate it.

But for Members of the Committee who may not be familiar with this role, I want to emphasize the importance of maintaining a system of local oversight and accountability for this most personal of financial products. For more than 4 years, we at the State level have been working on solutions to the challenges raised by the revolution in mortgage finance during the 1990s and the fragmented system in place to supervise its players.

CSBS is implementing a national licensing system, and we have a framework for a system of coordinated regulatory policy with the Federal banking agencies. Our goal is a streamlined consistent system of oversight that protects consumers and enforces best practices while maintaining a stable flow of credit through our markets. Pre-loan counseling and follow-up counseling to new borrowers is a key element of these best practices.

Homebuyer and homeowner counseling and education are necessary, but they are not sufficient. It is important to combine such counselling and education with regulatory initiatives to bring greater transparency and accountability to the mortgage origination process.

For the homeowners in trouble, though, counseling alone may not be enough. This is a multi-faceted problem with many routes and implications and demands a multi-faceted approach. In Maryland, we have learned that we need, and we are now providing, housing counseling offices that provide not only counseling but also other basic services, such as litigation support.

Something else we are learning is that even at the point of foreclosure, there are important opportunities for counseling and education. In particular, we are seeing distressed homeowners become victims to foreclosure rescue scams and equity skimming scams. These scams are often complicated and intricate transactions that no homeowner should navigate alone. Maryland, for example, has enacted strong consumer protections now that ban these types of scams.

One ironic benefit of the current crisis is that it is showing us what borrowers did not know and needed to. Thus, the architects of financial literacy programs can learn from this experience and readjust to help prevent future crises. A good financial literacy program includes at least three essential elements:

First, participant involvement. Consumers gain confidence when they can identify the pieces of the process they already know. So a good training program should begin with the instructor asking practical questions that students can relate to.

Second, train the trainers. Financial literacy instructors themselves need to know not only the nuts and bolts of personal finance, but also the psychology of money and how adults and young adults learn about it.

Finally, financial literacy training is most effective when it can capitalize on so-called teachable moments, that is, teaching when the student wants the information and when the information will stick. Clearly, purchasing a home is one of these moments.

Federal and State governments should endorse and promote the national industry standards issued last fall by HUD, NeighborWorks, and a host of industry leaders. We are and we should be looking for ways to help nonprofit counselors achieve and demonstrate compliance with these standards. We can and should work together to set similar standards for broader financial literacy programs. Federal and State governments should present a better aligned approach to building the capacity of the homeownership and financial education nonprofit sector.

The national mortgage licensing system, proposed and developed by CSBS and Armor, comes at the issue from the other side, requiring standards of education for mortgage bankers and brokers as a condition for licensure. While in forums like these we tend to focus on the need to educate the consumer, in the structure and realities of today's marketplace, it is often equally important to educate the lenders and the lenders' agents.

Any Federal initiative to improve consumer protection must recognize, support, and not interfere with the State's ability through legislative and enforcement authority to protect consumers from emerging problems. It is crucially important not to undercut the work we have already done and are continuing to do. Federal legislation should build on State expertise and efforts to protect our consumers. Our uniform licensing initiative is only one part of this effort.

Congress has the ability and opportunity to create a new system of State and Federal coordination for protecting homeowners and enforcing best practices in the mortgage lending industry. Consumer education and counseling are crucial elements of those best practices, and CSBS would support Federal efforts to support and encourage these practices.

We ask, however, that you remember that when it comes to protecting consumers, even globally funded mortgages are originated locally. Grass-roots outreach and education programs are more effective, more efficient, farther-reaching, and longer-lasting than top-down initiatives.

Thank you for inviting me to testify on this important subject today, and I am pleased to answer any questions the Committee may have.

Chairman CARPER. Commissioner, thank you so much for joining us today and for your testimony.

Mr. Wade.

STATEMENT OF KENNETH D. WADE, CHIEF EXECUTIVE OFFICER, NEIGHBORHOOD REINVESTMENT CORPORATION, D/B/A NEIGHBORWORKS AMERICA

Mr. WADE. Thank you, Senator Carper, Senator Bunning, and Senator Menendez, for inviting me to be part of this hearing today. The importance of financial education and counseling cannot be overstated, particularly in light of the rise of non-traditional financial services outlets, and obviously the rising foreclosure crisis that all of us are so concerned about.

Today I would like to highlight five areas that we are working on that make a contribution in this broad area of financial literacy. One is a financial fitness program that we are operating that deals with basic financial literacy: a pre-purchase education counseling program that we have; a post-purchase education counseling program, which includes foreclosure prevention initiatives; the training that we do related to supporting all of these activities; and then the national industry standards that we are supporting, along with a broad set of other players in the industry, in order to create some standards that help govern this activity.

First, in our financial fitness program area, we see that it is critical to help consumers and communities. For consumers, financial education is the key to protecting their assets and building wealth. For communities, it is clear that financial education programs promote stronger and more stable neighborhoods where residents are more resistant to downturns in the economy and other threats to their financial well-being.

Our financial fitness program teaches basic financial planning, money management, both how to budget, save, invest, how to access financial services and financial institutions; it teaches about credit, taxes, and insurance. Those are all basic things that all consumers need in order to be successful in navigating this very complicated environment out here today.

We also know that financial education works. In our own efforts, we have seen that financial education changes consumer behavior and improves financial confidence. And it also dramatically improves saving rates for consumers who participate in formal financial literacy efforts.

We have provided financial fitness training to more than 900 counselors since 2001, helping to create a network of fully trained people who are able to provide this kind of service to their local communities.

We also have a very pre-purchase education and counseling effort. It is pretty clear that high-quality pre-purchase counseling that adheres to national industry standards helps people with budgeting, credit repair, making good decisions on their mortgage products, and through pre-purchase counseling and education, NeighborWorks organizations have been able to prepare foreclosure-resistant borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership. We have been tracking the performance of the loans made through consumers who have been assisted with organizations in our network, and we have been able to demonstrate that there have been a significant—or to think about it another way, these borrowers perform better than subprime loans for sure, better than FHA and VA loans, and on par with prime loans. So I think it demonstrates that if people get good pre-purchase counseling, they can be successful homeowners, even if they have limited incomes.

So we think the best defense against delinquency and foreclosure is objective education and advice before the borrower begins shopping for a home and selecting a product. In fact, the vast majority of consumers that we are seeing in foreclosure today by and large had no benefit of any pre-purchase counseling from anyone.

On the post-purchase education and counseling front, through our post-purchase counseling efforts, new homeowners learned all the things that you need to know when you become a homeowner for the first time: you know, how the home maintenance issues will affect you, how you have to set money aside to address that; how to evaluate and in many cases turn down all the plethora of additional financing offers you are going to get when you become a homeowner; how to evaluate refinancing opportunities to see if they make sense for you and your family; and, obviously, minimizing consumers' becoming overleveraged with more debt than they can handle.

NeighborWorks organizations also establish an ongoing relationship with their customers so they know those customers know where to turn when they do or if they do get into trouble. And, obviously, like any other consumer, life events happen, illnesses, job loss, and the like. And so oftentimes consumers need someone to turn to that can help them work through those issues.

Post-purchase counseling also helps people understand that if they do run into trouble paying their mortgage, it is also important to seek help early. That is one of the things that we have learned through our foreclosure prevention efforts. As you probably heard quoted, up to 50 percent of consumers who go to foreclosure every year never have any contact with their servicer. They do not respond to the phone calls, the outreach efforts, and the letters. In addition to that, a good number of consumers who finally do show up for assistance on average show up very late in the foreclosure process. So, clearly, being able to reach out to consumers early makes a big difference.

That is why one of the things that we did to contribute to this issue in the foreclosure arena is develop a public education campaign with the Ad Council that we launched last June. It is a national public awareness campaign. It encourages struggling homeowners to call the toll-free number of the Homeownership Preservation Hotline, which is staffed by professional counselors 24/7, 24 hours, 7 days a week, which connects them with the kind of counseling that is possible to help them maintain homeownership.

We also, as you know, have been charged with the responsibility of administering a consolidated appropriations foreclosure prevention counseling program. We have been pleased to be able to respond to that responsibility. We set up a program where over $350 million worth of requests came in for that effort, which was $180 million appropriated. And we were able to, within the 60 days of enactment of that legislation, award the first round of those grants, roughly $130 million that went out to help support foreclosure prevention counseling.

We also do a lot in the area of training. It has been one of the areas that we have felt the need to make a contribution in for a long time. In the area of financial education alone, since 2004, our NeighborWorks America has issued 25,000 certificates of completion to housing counseling professionals, both in the pre- and post-purchase counseling area.

And then, in addition, as you know, we are also supporting national industry standards. One of the challenges facing the counseling community today is the ability to ensure that we are providing high-quality counseling to the consumers who need it. And so together with many other industry players, we have developed a set of national industry standards that helps set the bar, so to speak, for performance benchmarks in the area of not only foreclosure counseling but pre-purchase counseling as well. And those standards have been attached to my written testimony, so they are available to the Committee.

In closing, let me just say that an informed consumer obviously knowledgeable of all the options available to them is key to sustaining and strengthening the family and their community. We have been able to demonstrate that pre-purchase education and counseling makes a real difference in terms of preparing consumers for the responsibility of sustainable homeownership, and that post-purchase counseling provides help to those families that run into unexpected problems or face major challenges once they become homeowners.

Funding this important service obviously continues to be a challenge, and I know many organizations struggle with the way that you can pay for this service in order to make it broadly available. So we are committed to ensuring that we can do all we can to help ensure that every American who wants pre- and post-purchase counseling gets access to it, and we look forward to working with the Committee in any way we can to help ensure that becomes the case. And, obviously, I am willing to answer any questions that the Committee has.

Chairman CARPER. Mr. Wade, thank you. We will have, I suspect, a number of questions. Just hold on tight there, and we will recognize Ms. Cohen for her testimony, and then we will start our questions.

Ms. Cohen, please proceed. Thank you.

STATEMENT OF RONNI COHEN, EXECUTIVE DIRECTOR, DELAWARE MONEY SCHOOL

Ms. COHEN. It is an honor to be here today, and Senator Carper has been very important in my career as a classroom teacher, where I did try to teach financial education for over 33 years. I did get out of schools before the No Child Left Behind Act, and there was more chance to teach financial education.

In my role now as Director of the Delaware Financial Literacy Institute, our signature program is the Delaware Money School. This is the vision of Delaware Treasurer Jack Markell, and it was created in 1999, and it became a nonprofit in 2001. We offer now over 600 classes a year free across the State of Delaware. We offer classes in basic budgeting, credit repair, business startup, homeownership, and we offer the classes to a very diverse community of learners.

In my position, I have been following, obviously, the exotic and toxic mortgage dilemmas and the tragedies. I appreciate this opportunity to share these experiences that I have had. Mine basically have been with low- to moderate-income people who are looking for financial education.

Yesterday, of course, somebody called and asked if we taught martial arts, and we do not, but other than that.

Most of grew up believing that homeownership was the American dream, and if you did not believe in it, people said to you, "You have to own. You are throwing your money away if you rent. This is for your future. This is for your family's future." And we saw that that dream became nightmares, as Senator Carper has said. We saw people who would just go on the Internet, look at houses, look at the multiple listings, and drive around to find their dream home. They really did not educate themselves. So it was no wonder the subprime market blossomed.

For those who thought it was never possible to own a home, signs that said "No money down. Let us put you in the home of your dreams" were very appealing. These were big billboards. These appeared everywhere. In our culture of instant gratification, many were tempted by these ads, the adjustable rate mortgages, and they did not think or did not know to worry about the balloon payments and the rising fees down the road.

With the low and zero down payments and lax document and credit checks, many jumped at this chance and became instant homeowners. And often these homebuyers were led to believe that owning would be cheaper than renting, and it could be. But buyers did not always check or understand the fine print or their capacity to pay mortgages and living expenses before they jumped on this bandwagon. No one thought about the taxes, the trash removal, the maintenance, the upkeep, the utilities, the furniture to fill the dream house, and the inevitable emergencies.

While these options provided opportunities for more consumers to get into the housing market, they did pose considerable risk because of the higher monthly payments. And we know that the complexity and variety of mortgage products require consumers to take an active and informed role when evaluating products. And one of the important parts of that role is to ask questions, and people often are embarrassed to ask questions. Without this training or education, making personal financial decisions is a confusing, frustrating, and dangerous road to maneuver for most Americans.

The Delaware Money School is able to offer its 600 classes across the State because we have over 100 partners. We have 125 volunteers who are experts in the field that offer free introductory classes covering the basics of financial education. The problem is not all people who need this financial education avail themselves of these free classes. Some potential buyers decide it is not worth taking the time when that dream house might not be available, someone else may get it. So they skip the housing homeownership free financial education classes. They skip the one-on-one counseling, and they get right to the mortgage—and I have had people call me and say, "When I got to sign my papers, the figures were not what I thought they were going to be." And one of the things the counselor can do is help you prevent that from happening.

Often, a counselor can tell you that that $400,000 house that you have been prequalified for is not the house you are going to be able to afford. Two years ago, I had an AmeriCorps volunteer who made $15,000 a year who prequalified for a $400,000 house. She thought that was really funny, but she actually prequalified, and it was scary that on $15,000 she could have the house of her dreams. She did not buy the house. She just wanted to see what she prequalified for.

It is ironic now that laws mandate that people declaring bankruptcy have to study financial education, but not all first-time homebuyers are required to participate despite the statistics showing that informed buyers are less likely to encounter problems making their mortgage payments. So the Delaware Financial Literacy Institute and my partners recommend financial education for all first-time homebuyers, not just for those applying to special products. And what should it look like? It is what has been mentioned here today. Budgeting: the old concept of spend less than you earn, live within your means. Goal setting: Where do you want to be? Is this the house of your dreams? Is this a good first house? Where do you want to be 10 years down the road?

The concept of paying yourself first. One of my students said, "Doesn't that mean I take my spending money first and then I pay my bills?" So there is a lot of education that needs to be done.

Financial education must include the wise use of credit, building a positive credit history, repairing poor credit, and improving credit scores. It should include banking basics, what account is best for you. One important thing that we like to teach is being a responsible renter. If you have a good rental history, that will help you.

Rational decisionmaking is something we do not teach, but that is something that should be a part of financial education, looking at pros and cons, costs and benefits; looking at loan products, predatory lending practices, and, last but not least, financial education should let people identify the people in the community who can help them with financial decisions, people who are not motivated by commissions and sales.

Many of our housing instructors teach these basics. We have people who are from NeighborWorks that teach financial fitness. These are free courses. They also offer a seminar for which they are beginning to charge, and they bring in the major players: the mortgage broker who can explain what points mean, what PMI is, about closing costs; a realtor, an attorney, a home inspector, and an insurance agent.

And one of the best things about these pre-homebuying classes is the opportunity to ask questions in a small group. And sometimes someone will ask a question that will spur your own question. This targeted personal financial education itself often comes, we find, during the counseling session, the one-on-one counseling, where the information can be targeted to the individual buyer's needs.

There are books on the market: "Homebuying for Dummies," "The Idiot's Guide to Buying a First Home." There are many Internet sites that will help you buy a home. They just do not provide you with an adviser who can help you make the best choice.

Whatever the means, the potential homebuyer must have a grasp of basic financial concepts and be able to grasp the meaning of mortgage terms and the necessity to read and understand the mortgage documents and requirements, to not be embarrassed to ask questions when they do not understand. Delaware Bank Commissioner Robert Glen and his Deputy, Gerry Kelly, have worked tirelessly on preventing foreclosures and building awareness of predatory practices. From their experiences and from those we have talked to with Money School instructors, it is clear that homebuyers who have had basic financial education, counseling, and access to counseling are significantly less likely to go into foreclosure because they have made wise mortgage choices.

In Delaware, through the Community Reinvestment Act, corporate sponsors sponsor the Delaware Financial Literacy Institute and have made it possible for us to offer free financial education. With Citigroup, we have a unique program targeting low- to moderate-income women, getting them prepared for homeownership, business startup, Purses to Portfolios. What it gives these women is a cadre of professionals they can call for information at any time.

Two weeks ago, the President of Discover Bank approached us to develop a housing program for Kent County, which has the highest foreclosure rate in Delaware. Discover, Bank of America, and State Farm fund financial education summits for high school juniors, getting them ready to understand the rules of financial choices. And JPMorgan Chase has provided funding for us to teach asset building and financial concepts to at-risk youth.

One strategy I think that was particularly helpful was developed by PNC Bank with Interfaith Housing and NeighborWorks, a homebuyers club that meets 11 weeks. Not only do they have classes, they provide dinner and child care, which is critical to the young homebuyer. They go over all the basic concepts of financial education, and during the duration of the club, buyers become acquainted with counselors and get familiar with them and know they can call for help. They learn to repair their credit, if necessary, and the counselor helps them look at specific mortgage products and what best suits the buyer's needs. The best thing is it is not an overnight decision to buy a home. There is time to judge the merits of waiting to qualify for a mortgage with better terms.

Talking with my partners, in conclusion, I would like to say that what we need is all first-time homebuyers, especially those in the low- to moderate-income bracket, should be required to complete basic financial education, including the pros and cons of different types of mortgage products. They need to understand predatory lending. The Deputy Bank Commissioner said I should ask that you work to simplify the mortgage documents. When you get that pile of documents and you are there by yourself, perhaps with your attorney, and you are afraid to ask questions, if there were a simpler form or one form, perhaps, earlier in the process, it would be much more helpful.

We know that homebuying counselors must be certified and required to maintain and update their certification. And a number of counselors have said to me, "We do not get people coming back to the post-homeownership classes. They figure they are in the house, they do not have to worry." And in order to protect these people so that they can keep their home, sweet home, there should be some type of incentive, perhaps a tax credit, like the Home Energy Improvement Credit, for people who do pursue this post-homeownership education, because it is critical that we give homebuyers the tools not just to buy that home, but to hold onto the American dream.

Thank you all.

Chairman CARPER. Thank you, and I thank each of you for just really wonderful testimony, excellent testimony.

Let me just make an observation. I think about my generation or even my children's generation, and I consider the generation of my parents who grew up in the Great Depression. Today, when I watch television—I do not watch a lot of it, but I think of this almost as an instant gratification society. I remember seeing commercials that "You are worth it. It costs a lot of money, but you are worth it." And "Have it now," and "Pay for your furniture in 3 years, but you can have it today."

To what extent does that mentality, the notion that we can have it all and we can have it now, we do not have to wait, to what extent does that play into this problem or lead to this problem?

Ms. COHEN. I believe people right now, instead of having their first starter home, when they find that they can pre-qualify for a larger home in a great neighborhood with very little down, they jump on the chance to get that home now, not starting with the starter home and moving up, but starting right away with the home above their means.

Chairman CARPER. I remember when I was looking for my first home, the advice I got was buy the biggest home that you can, the biggest home that you can qualify for, because the expectation is that housing prices will go up, they almost always have, at least in the long run, and you will be able to, you know, trade out of that at some point in time and into another house, but buy the biggest house you can in terms of your buying power. I remember that advice. I did not do it, but probably a mistake.

[Laughter.]

Other thoughts on this notion of instant gratification? To what extent does this play into it, Mr. Wade?

Mr. WADE. I mean, I think clearly that is a challenge we have in this country. We have got a negative savings rate. I think Americans are saving less now than they have ever saved in the country's history. I think the revolution in financial services is a good thing, because obviously today there are more financial services products than ever before.

The downside, it seems, to that new environment is that people basically are financing today's activity with tomorrow's money, and that is a big challenge we have and something that I think, you know, we need to do a little public education around. And I think all of us know that—I know when we were created 30 years ago, the big challenge was access to financial services. That is what the Community Reinvestment Act was all about. Today it is not so much access. It is whether you are going to get the financing that is right for you.

Chairman CARPER. Commissioner Raskin?

Ms. RASKIN. Yes, I would just add in terms of the instant gratification, there has been a delinking really of ability to repay, right? So because of this instant gratification mentality, the notion that there should be the ability to repay comes across as foreign to a lot of people. And in Maryland, we were successful in actually legislating an ability to repay, but I have to say it was not particularly easy. And you would think that it would be just, you know, complete common sense.

I think another aspect of the instant gratification argument is a lot of people were using their home equity as really an ATM, and the sense that the run-ups in home values was a good source of cash. And, you know, the pairing of the instant gratification is really clashing with that as we see downward pressure on home values.

Chairman CARPER. All right. Thank you.

Ms. Cohen spent—did you say 3 years of your life as an educator in schools, but you continue to be certainly very much of an educator. In our State, in fact, I think in almost every State in this country, we have all adopted academic standards that say what we expect our students to know in math, science, English, and social studies, and other subjects, and we basically say we are going to measure their ability to master certain skills in those subjects, certain knowledge in those subjects. And we leave it—not entirely, but we leave it largely up to schools and to teachers to figure out how to teach the math or how to teach the science and so forth.

I am wondering if—it seems to me like particularly in sort of like basic math and maybe pre-algebra, the notion of buying a house and figuring out what compound interest is, those kinds of subjects just really lend themselves to taking academic standards, particularly in math, and being able to apply them in our everyday lives. Are you aware, whether it is Delaware or Maryland or other States, are we actually doing that?

Ms. COHEN. We are trying. In Delaware, we do not have required economics or consumer economics. Some consumers economics is taught in family and consumer science. We find that people do not know the rule of 72. They do not know compounding interest. But those are not measured in our State standards. Very few of the economic concepts, consumer economic concepts, are measured in our standards. And basically one of the things is teachers who learn to integrate those concepts across the math and English curriculums, science curriculums, can get in some economic financial education, but it is basically under social studies. And social studies is on the back burner. We, unfortunately, do not think it is—we do not put our values in civic education, financial education. But they are critical life skills, and a lot of teachers in Delaware will say to you, "I do not do anything until after the test is over. And then I only have 2 months to teach."

So it is tight. In Delaware, we have a wonderful elective, Keys to Financial Success. It has been copied in Pennsylvania. It has been copied in some other States. But it is an elective, and the University of Delaware has just said they would not accept it as college credit. So we are working on that. But it can be taught. It can be taught effectively. And what they do is look at homebuying. They look at learn more, earn more, looking at the U.S. Department of Labor statistics on higher education will impact your earnings over your lifetime.

There are lots of ways we can teach children if we make the time, but I guess it goes back to the fact that we do not educate teachers in financial education. So they come out of colleges with no financial education themselves.

Chairman CARPER. And as a result, it is difficult for them to create a lesson plan that actually relates an academic standard in math to lessons in life, whether it is buying a home or handling your credit cards or your personal finances.

Anybody else on this before I yield to Senator Bunning?

Ms. RASKIN. I would just say that that idea of integrating financial literacy concepts into an existing curriculum is—that is quite an original concept, so that even if we hit resistance in building a core curriculum that focuses just on financial literacy, you would think that at least financial literacy concepts could become integrated into the existing curriculum. And I think that is a good idea.

Chairman CARPER. All right. Thank you.

Senator Bunning.

Senator BUNNING. I am just going ahead of you because I have got to get to a meeting. Sorry.

First of all, Kentucky has been very not well educated. I mean, we are about 46th in education in the 50 States. But on this subject, on foreclosures, I want you to know that we are the sixth best in the United States, 1 to 2 percent foreclosure rate. And why? We are only first in horseracing. We will prove that Saturday.

Why are we doing well in foreclosures, or as well as we are? I just had a meeting with the community bankers and our banking community, our realtors, our homebuilders, our mortgage brokers, which were a major problem in this crunch and crisis that we have had, and our regulators. And it is because of the cooperation of all of those people that we did not go off the trolley—I mean, we kept on the tracks.

My question is on this: From your perspective, can Government stay on the track without going overboard? In other words, can we as the Federal Government, which is what we are talking about, keep things in perspective without taking sides here? Anybody.

Ms. RASKIN. Sure. I think that that is what we all achieve—what we try to achieve as regulators. We never want to overreact, and the tendency as a regulator is to always be behind the eight ball. So we are often in a position where we did not catch it when we should have caught it, and we need to compensate, and we overcompensate. And that clearly is not ideal, and I think that what good regulators try to do is try to have measured responses and tailored responses, and to react appropriately to the situations that they find themselves in.

I happen to believe that, with good regulation, you can do it. You can achieve a balance, and you will not create more problems, you know, than you started with.

Senator BUNNING. But the situation we find ourselves in now is because we did not. The Fed, who was responsible since 1994 for governing mortgage brokers and all banks, did not regulate properly, and we got into sophisticated ARM, sophisticated non-traditional mortgages. And we also had a lot of personal pride come into the effect, and I liked his opening line where he said, "Did we try to overextend?" Well, I don't know anybody in the world that doesn't try to buy the biggest house with the least money down. But, in fact, when I grew up, you could not do that. They would not give you a 30-year mortgage if you did not have a certain amount down.

The people that were put into $400,000 homes, prequalified for them, were actually renters. They rented for 5 years, and then when all of the bills came due, they got stuck with the bill. And so they became what we call foreclosed, or about two-thirds are going to be foreclosed out of their homes, and they were actually renters during the 5 years or 6 years that they were in the home, not paying—or not having enough money down to pay for it.

We have to do some solving of some problems of those who can not afford the home they are in, and we are going to do that in the Banking Committee. This hearing will help us.

Can you think that the FHA—and I ask everybody—can have a role in solving this problem without getting way overboard on the amount of money that they can borrow from the FHA?

Mr. WADE. Sure. We generally feel that the FHA has a role to play. We think it has been an underutilized resource. It is a resource that exists, created by the Government basically to serve this niche. They have not been very competitive in recent years, so we think expanding the FHA's ability to serve more people would be a great contribution that can be made to help address this issue.

There is no question there is room for, I would say, modernizing the regulatory regime. I think with regulation it oftentimes lags behind innovations in the market. That is just the way it works. I mean, that is just the nature of——

Senator BUNNING. Nobody is watching the store.

Mr. WADE. Right. Absolutely, Senator. And in a sense, I think the current regulatory environment needs to come up to the current—and recognize the current innovations in the market and be modernized to address that. And one of the challenges we have today, and I think while I do not know a lot about the specifics in Kentucky, at least what we have heard from some of our members there is that you still have a robust community banking network.

People have primarily relied on those institutions for financing home purchases. Typically, that is not where the problem has been in the market.

Senator BUNNING. Zero problem. None.

Mr. WADE. Right. It has been traditionally, you know, primarily in the subprime sector. That has been the main driver. And I would say that the regulatory environment just was not adequate to address the innovations that the subprime market brought forward. So I think that is one of the things that I know the Committee is wrestling with. Where is the right balance to strike between enhancing the regulation that is necessary, and obviously not impeding innovation that is necessary that has made financial services more broadly available in this country than it has ever been before?

Senator BUNNING. Thank you, Mr. Chairman.

Chairman CARPER. You are welcome, and thank you.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Thank you to all. Ms. Cohen, I was interested in that story of the young AmeriCorps individual. For $15,000 I cannot pay my rent in Washington, much less own anything at the end of the day.

Let me ask you all, on a scale of 1 to 100, with 100 being the best score, how would you rank the average American's financial literacy abilities?

Mr. WADE. You know, I had not really thought of it along those terms, but I would say clearly probably less than 50 percent. But I would say some of that is not necessarily the fault of the consumer in this regard. We do not expect the consumer to understand certain other kinds of things that are complex in the marketplace. So most consumers when they have a legal matter, they need to get an attorney.

I think one of the questions that I think we need to think about today, particularly in the mortgage finance arena, has it become so complex that consumers need a mortgage adviser at the time of that transaction? And I think that is really the challenge that we are facing in the mortgage arena. It has become so complex. The average consumer does not do it often enough to become proficient. I mean, it is not like, you know—you know, when you are buying clothes and food, you do that often enough, you kind of know what milk ought to cost. But in the case of mortgage finance, you do not do it enough, and there are so many innovations in the market, it is very hard for the consumer to be proficient. And so I think that is one of the challenges that we have got to address.

Ms. COHEN. I have a comment. I think that some Americans believe they know more than they actually do know, and I think that is a problem.

When the Money School started in 1999, the first 12 classes were on investing. When I became the director in 2002, the instructor said to me, you know, "These people should not be investing." People tell them, "You should invest. You should invest." "These people are deeply in debt. They need to be paying off their credit."

So we have revamped what we offer, and we do still offer investment classes, but we have had to do—our big favorite is a crash course in credit, Kiss Debt Good-bye. Those are the ones that are most popular, and those are the ones people take over and over again.

We did a study of the Money School last year, and we found the people who did take Money School classes on a consistent basis—and that is what we are looking at—they were able to reduce their debt, they were able to start saving, and they were able to begin the road to homeownership. But I think if you look at Jump Start, the average high school student is not well versed in financial education. We do not teach it. We do not talk about money. That is the whole problem. We do not talk about money. It is embarrassing to tell people. We tell very intimate details of our life, but we do not talk about our financial situations.

In Delaware, we have over 300 women who have now amassed over 8,000 hours of financial education, and what we are working on is not taking one course, not just taking 10 courses, but making financial education lifelong learning.

Ms. RASKIN. I would really echo the sentiments of the other panelists. Clearly, Americans are not well versed in these transactions, and they are complicated. Even after the point of purchase, what we are now seeing, as homeowners move closer into foreclosure, is the complexity in which they have found themselves, because they do not often just have first mortgages, they have got second mortgages. And now what we are asking them to do is to go into situations where they are going to enter into some kind of mitigation possibilities with their servicer. It is mind-boggling trying to figure out exactly what the borrower entered into and how they got to the point that they now find themselves in.

One sort of interesting fact we are seeing—and we are going out into the communities to talk to people who are in foreclosure, and last night, for example, we had a meeting in Prince Georges County, right over the line here, and we have had a number of these. And as we continue these seminars, these foreclosure fora, we are finding that people know more. They are actually learning quite a bit more than they probably knew when they bought their homes. They are speaking at an increasing level of sophistication, which is obviously—it is a good thing, but it is also evidence of how difficult situations have become.

Senator MENENDEZ. Well, I appreciate your answers. I notice that you all diplomatically did not score, but I will derive from your answers some of the views.

You know, in my view, certainly I do not expect people to know the nature of some of the mortgage transactions and whatnot in detail. But I think part of the question is a baseline—although we are focusing, Mr. Chairman, on mortgages today and homeownership, the reality in my view is financial literacy widely spread. You know, we are going to have a big, a huge credit card problem in terms of growing debt of credit cards. We want people to have credit cards. We want them to make the right decisions as to how they do that. And there is a whole host of other financial transactions that we make that are not necessarily as uncommon as the purchase of a home, but that at the same time does not have the level of financial literacy needed for people to make informed decisions.

So let me just close and ask two last questions. One is, Commissioner, you talked about your State passing ability to pay as a

State standard. If, in fact, we had that as the standard in a regulatory process, wouldn't we, you know, cut through a lot of the challenges of individuals? Certainly the AmeriCorps individual would not have received their commitment. And we would actually have a system in which people would likely qualify. They may not buy the biggest house, but they will get to buy a house if they qualify. And they are not going to end up losing their home. Wouldn't that be something significant?

And then, last—and anyone else who wants to respond to that. Last, isn't there some incentive, whether in the marketplace itself, to get people to do particularly pre-purchase education, maybe even post-purchase education, Mr. Chairman, isn't there some incentive that the marketplace—you know, like in driving insurance, you know, car insurance. If you take certain courses, if you do certain things, you actually get a benefit on your insurance premium. Is there something along those lines that we can do in the private sector? And if not, what is there governmentally that might be done to create an incentive for people to move to the pre-counseling? If you could just talk about those two issues, I would appreciate it.

Ms. RASKIN. Sure. I will just back up to address some of your comments. Credit cards clearly are something that is a much more accessible and widely used tool that financial literacy can be geared around, and I think that is just an excellent point, and it shows quite a bit of foresight, because, you know, what we are learning and what we are seeing in the housing context is that we now face a very different marketplace when we buy a home than our parents did when they bought homes and just dealt with a bank and it was a bank that held onto the mortgage, and we did not have all these different players.

Similarly, we are going to learn things, and we are starting to see things in the credit card context, and I can speak just, you know, from the perspective of my children who are, you know, preteenage years, and they think that transactions all occur by swiping plastic. To them, you do not hold onto cash; you actually use plastic. This sort of ties in, also, to sort of the cultural pressures, too. I mean, you know, the Barbie doll now has her own ATM that, you know, she swipes and this is what children now see as the toy.

In terms of the ability to repay, yes, I mean, I clearly think that that is a very important legislative solution, and it is not a silver bullet, by any means. But we are hoping in Maryland that that is going to be a big step forward. Lenders, too, benefit from an ability-to-repay standard. You would think this is Banking 101, but good credit risk management would indicate that an ability to repay is something that lenders would support as well.

And then, finally, in terms of the incentives in the marketplace, that is a very important thing to think about, and one thing that just comes to mind, listening to you—and I am not sure this is what you quite had in mind, but, you know, we do have credit scores. Now, this isn't an incentive, but it is something to watch because credit scores are now the metric by which a lot of people—it is determined whether a lot of people get access to certain kinds of credit. And I think the way the credit system and the credit scoring system works is something that we need to study.

Mr. WADE. Sure. Let me start with the latter question there. We support the notion of creating market incentives to help incent counseling. A number of years ago, actually the FHA used to have such an incentive. They would offer a discount to consumers who participated in counseling. The notion was that obviously if a consumer took advantage of pre-purchase counseling, they would be a better customer for the FHA and would mitigate the risk. We are recommending that Fannie and Freddie consider that sort of thing as well, because to a certain extent I think, you know, while there is anecdotal evidence from our own network, I think if you talk to all of the local jurisdictions that have downpayment and closing cost assistance, where they require counseling, they will also have the same kind of positive loan performance with those consumers as we have been able to indicate in our network.

So I think there is a value to ensuring that consumers get it up front. It is good for the consumer. It is a risk mitigant for the institution. And there ought to be a way to create an incentive in the marketplace to make that a more likely occurrence.

In addition to that, I would agree that on the broad financial literacy front, doing more better and earlier as well—I mean, there is no question—I mean, I know when I went to school, I did not know any college student that had a credit card, unless it was their parents'. Today, college kids get solicited directly on their own merit for credit. So we have, in a sense, less financial education occurring today and access to more credit than ever before. And I think that is part of the dynamic that we are struggling with.

I have heard that as well, having a couple of educators in my family, that some of the focus on the standards today, reading and writing, have crowded out some of the things that used to be part and parcel of the curriculum that we had in all of our public schools, and that is a challenge we have got in the public school arena. It is one of the places that we obviously have an ability to do a lot. And then I think the colleges need to do more as well for students who end up there. I saw a statistic the other day that the average college student comes out of college $5,000 in debt on consumer debt, set aside the student loans. This is just consumer debt—store charges, credit cards, and the like. It seems to me we are not doing something right if that is the case.

Ms. COHEN. I taught fourth, fifth, and sixth grade economics and entrepreneurship, and the last year I taught, one little boy said, "We are going to have a terrible Christmas." And one little girl said, "Why?" And he said, "Well, my father was laid off at Chrysler." She said, "So what?" And he said, "Well, we won't have money." She said, "Just go to the man in the machine. He'll give it to you."

And I must have made a terrible face at her, and she said, "OK, OK. It could be a woman in a machine."

So I had done well with gender equity, but I had not done well with the whole principle of banking.

When I was little, we went to the bank with our parents. We walked through the bank. We actually saw our parents put cash in the bank. Nowadays, the most children see is a drive-through where the dog can get dog biscuits and they can get lollipops. And they see the ATM machine, which dispenses cash. That is it.

"Where are you going?" "I'm going to the grocery store to get money."

So we really have to begin earlier. We have actually started in Delaware the National Council for Economic Education, and the Delaware Council on Economic Education have actually worked with us to start lessons for daycare providers and pre-school providers on teaching financial education. And what we are teaching is rational decisionmaking, making wise choices.

We just created a hundred kits for first-grade teachers which integrates financial education across the reading curriculum so that teachers in the first grade can start working with children about making wise choices about money. And it is being done in places, but I agree, it has to begin earlier, and the other thing I would like to say is we have these 300 women who get—we issue a little award certificate if you finish 10, 20, 30, or 100 hours. We now have people surpassing 250 hours. They earn volunteer hours in the earned income tax credit as cash coordinators and tax preparers. That certificate, which will not get them anything, is rewarding to them, and learning can be its own reward. And I think that is what we need to give people—the financial education to have their dreams come true.

Senator MENENDEZ. Thank you very much.

Chairman CARPER. Well, these are great responses, aren't they? I am glad we are here.

Commissioner Raskin, you sat today on this side of the table, but previously you sat on this side of the dais, and something that Mr. Wade said—he was talking about—I think in response to your question about FHA, maybe. He talked about FHA needs—maybe there is some lesson there for Fannie Mae and Freddie Mac. And we are going to be possibly marking up legislation in a week or so here dealing with the creation of an independent regulator for Government-sponsored enterprises like Fannie Mae and Freddie Mac, and we will have an opportunity to consider the very issue that I think you have raised, Mr. Wade. And we have already adopted and sent out of the Senate over to the House FHA reauthorization. And we will end up, I suspect, in a conference with the House and be able to consider further changes to FHA going forward as we try to make it relevant for the 21st century.

That is sort of a lead-in to my question, Commissioner Raskin. Having sat today now on both sides of the tables here, what lessons are there maybe for us, a to-do list, if you will, for us as Federal legislators, as we attempt to deal with these issues? One of the things we have done is we have provided in the legislation, which included FHA reauthorization, $100 million for housing counselors. That is one of the things we have done. But what else could we do or should we do in the context of the legislation, especially that we are going to be considering here next week or so in this room?

Ms. RASKIN. Well, that is a great question, a great opportunity, and I will say that to pick up on just a bit of the dialog that I had with Senator Bunning, you know, we—it is an opportunity now. I mean, what we are seeing at the State level is really heart-breaking. And we talk about, you know, the foreclosure crisis, and I know there is an instinct to be very abstract about it. And we talk about the importance of counseling and a multi-faceted approach.

And, you know, one thing that when I—what is sort of hidden behind these words is the fact that the foreclosure crisis has a very human face. And when people call counselors and we say we need a multi-faceted approach, it is because many people who call are calling, you know, saying that they are about to commit suicide. I mean, it is a very—it is a dysfunction in the market that has a very human face to it.

I think that as you all go forward and contemplate and enact legislation that is going to help in this set of issues, I would ask that you, you know, very carefully consider the efforts that are being done by the States. We are the lines of first defense, and we are seeing it very close up and personal. And it is, again, I think there is a lot that we are doing at the State level. I happen to believe that the crisis that we are dealing with now is a failure of regulation, and it is a failure of regulation up and down. I mean, I am not going to say it was the Federal regulators or it was, you know, the State regulators. It was a failure of regulation, and I think we need to obviously correct that. And I think we need to correct it at all levels, at the State level and at the Federal level. And I would like to urge you as you move forward to consider carefully what is being done at the State level, because I can say at least from the perspective of Maryland and from very many other States that are dealing with this that there are a lot of very, very strong initiatives going on. We are dealing with this in our own backyards. It is very complicated, but we are acting, and we are acting, I think, quite wisely.

Chairman CARPER. One of our colleagues, Senator Martinez, two of our colleagues, I think Senator Feinstein, have put their heads together, I believe on legislation dealing with mortgage brokers, and the question is certification, licensing, continuing education for mortgage brokers——

Ms. RASKIN. And that is a very——

Chairman CARPER [continuing]. Not for us to spell out what it ought to be, but to direct—maybe to set some kind of minimum standards, but to then say to States these are the minimum standards, and if you want to go beyond that, you are free to do that.

Does that kind of thing make any sense? Again, what I am looking for in response to my question is: What are the kinds of things that we should do? And I mentioned we provided an extra $100 million for NeighborWorks, this idea of the mortgage brokers' licensure, ongoing education, the question of FHA, should there be something in FHA where people actually benefit financially if they go through the pre-purchase counseling. Those are the kinds of things I am looking for that you might think are good ideas that we should pursue.

Ms. RASKIN. I would just add then, to be very concrete, that something like Feinstein-Martinez, you know, would have the full—it has the very full support of regulators on the State level. That would, in essence, permit the States to coordinate better in terms of their creating standards, licensing standards for brokers, for originators, for many of the entities that have gone unregulated. And that is a very good first step.

Chairman CARPER. Other ideas? Mr. Wade, you sort of opened this up, at least in my mind.

Mr. WADE. Well, I would say, you know, I think a lot of the things you have commented on clearly, and other panelists, are what is needed. You know, we need to modernize the regulatory regime. I know that the Fed has out for comment regulations that would govern these high-cost mortgages. That is something that obviously we need clarity on in the market so that we can end up with a clear set of rules. I think obviously regulations for brokers at the national and State level are important.

I think one of the challenges with the regulatory environment today, you know, the mortgage market used to be somewhat contained State by State. You know, it is pretty much a national market. So I think you have to do it in concert.

Chairman CARPER. Even international.

Mr. WADE. And international, absolutely. So I think the coordination between the Federal and the State is very important, and we have seen even in some of the cases that have been—actions that have been brought against brokers, they will leave one State and hop right across the border and operate, you know, with a new name, and it is just very hard, I know, for the States that have attempted enforcement actions to keep track of that.

We also think that, you know, clearly being able to create a clear way that the counseling resources or the counseling activities can be paid for over the long term. I think in the short term the emergency assistance that Congress has provided is going to be great. I think over the long term we are going to have to be able to provide a sustainable way to support counseling.

Chairman CARPER. It is interesting you should say that because as we consider creating a strong, independent regulator for Fannie Mae and Freddie Mac, one of our principles is to be able to—for them not to have to live from year to year on the appropriations that we provide.

Mr. WADE. Right.

Chairman CARPER. But to have a source of independent funding.

Mr. WADE. Right. So those would be just some of the things I would offer.

Chairman CARPER. All right.

Ms. COHEN. I guess my only concern is that we cannot regulate ethics. The mortgage broker who says you can buy more house, the realtor who says you can buy a better house, that is always going to be. I guess it has always been. But that is why financial education is so critical.

Chairman CARPER. We cannot legislate or regulate that. I wish we could also have somehow the ability to rescind the laws of supply and demand when we watch what is going on in terms of commodity prices, although I suspect that some of that that is going on is not really supply and demand but the work of speculators and scam artists and so forth.

I want to come back to the point that I made early on, and that is, virtually every State has established academic standards of what students ought to know and be able to do. A lot of the times—and my own kids, one of whom, Ms. Cohen, taught and who turned out really well, in no small part because of your stewardship. But any number of times I worked with my kids on their homework, and they have said, "We have to learn this for the test"—and not the State test, but just for the test that they were preparing for. And they would say, "I am not really sure I will ever use this in my life." But everybody, almost everybody in this country is going to use credit cards. The lion's share of people are going to own a home. And in terms of using our academic standards and trying to create lesson plans, a curriculum that helps students learn and embrace the standards and understand the math or science, but to make it relevant in their lives, it just seems to be a no-brainer. And I do not think it is appropriate for the State, certainly not the Federal Government, but for States to say to teachers, "This is the lesson plan you have to learn." But it is tough when an educator himself or herself is not especially financially literate to create a lesson plan that enables us to make relevant that academic standard in the life of a person. They deal with their own personal finances.

I am not sure how to make—that is not one that the Federal Government can do. It is not one that the Federal Government can do.

Ms. COHEN. I think we need to go back to teacher education. In 1972, I had the opportunity to study with Marilyn Kourilsky, who invented the system called "mini-society," which for some teachers is all they have ever studied in economics, but children create a community in the classroom, and they create the rules, they create their currency, they set the prices. It made me change as a teacher that I began to be a learner as well. But there are ways to integrate this into our lessons. There are really clever lessons out there. It is just giving teachers the liberty to do this. And we do have Councils of Economic Education in every State, and they are doing unbelievable things. It is just getting it to the teachers who, at the end of a school day, are so tired they are not going to go to in-service. We need to get those materials out. We need to get workshops out. And they are there. It is just hopefully the testing will get back in line and teachers can get back to teaching.

Chairman CARPER. All right. Thank you.

Are you all aware of any States that are doing a particularly admirable job with respect to financial literacy? We are very proud of what Delaware is doing, and I suspect some other States are equally proud of what they are doing. But are you all aware of some States that are doing an especially good job, commendable job from which the rest of us might learn?

Ms. COHEN. I obviously think we are best.

[Laughter.]

But we do have a strong Delaware Council for Economic Education. What I think we are missing is we need to teach children entrepreneurship. That is the best way for them to learn why they are learning, what they are studying, why it is important, and to show them that they can build assets. And I think that is the way—that is the exciting way for kids to learn.

You hear people say that economics is the dismal science, but you can teach fourth, fifth, and sixth graders, and they think economics is fun. We are in the 24th year of our economic competition in economics, personal finance, and entrepreneurship where 500 kids across the State compete in economics, and they think it is fun.

So there are ways we can do this. California has some great economic educators, personal finance educators. The State of New Jersey actually has a very strong coalition of people teaching financial education. The Federal Reserve is out there offering great, great lessons plans. The U.S. Mint. There are materials out there. It is just getting the teachers to access them and finding the time to do them.

Chairman CARPER. All right, thanks. OK.

I just have a couple more, and we will let you go. Something that Senator Menendez said made me write down this question. My wife and I never thought a lot about figuring out how to perform childbirth, participate in childbirth, until my wife became pregnant. And then we signed up for childbirth lessons. We never thought a whole lot about parenting skills—hopefully we had some from our own—being reared and all. But we never thought about learning them until we actually had a child on the way.

I remember my boys who I think wanted to drive from the time that they got in the car coming home from the hospital after they were born, but we really focused on learning how to drive when they were eligible and started to take driver's education.

Some States are actually requiring people to go through counseling when they are contemplating getting married to be able to create more lasting unions.

Citing all those is a way of—the notion of when somebody is preparing to buy a house, who wants to buy a house, is that the time for States to say, "And, by the way, before you buy this house, you have got to go through this counseling." Is that appropriate or inappropriate? Mr. Wade and then others.

Mr. WADE. I would agree that we need a better job of baseline financial literacy for all citizens, I mean, no ifs, ands, or buts about it. But I think there are certain things that do provide the teachable opportunity, and clearly at the time of a home purchase—you know, you can sit through a class, and if you are not interested in really purchasing a home, it is not clear that the complexity of a home purchase will stick enough with you when you are actually ready to make the transaction. So we think for at least the home purchase, that is the kind of financial education and counseling that is best handled at the time that the consumer is thinking about purchasing a home. It seems to have the best payoff. People value it, clearly, and it does seem to have an effect.

There are some baseline things you can do to help teach people about generally, you know, what APR is and how, you know, interest rates work. But I think the complexity of the mortgage market suggests that you do need something also at the point in time that the consumer is ready to take action.

Chairman CARPER. I remember when we were refinancing our home—there was a time when interest rates were going down, and we wanted to refinance our home. We also wanted, I think, to build a room or something onto our house, a garage onto our house. And we took it as an opportunity to refinance at a lower mortgage rate, to take some money out of the house and use it for building onto our house. And we were asked by the bank at the time if we wanted to pay our mortgage payments through automatic deduction from our—they basically said you will get a lower interest rate if you use your checking account and we just automatically deduct twice a month, once a month. And so that was a real incentive, and we said OK, we will do that.

I wonder if rather than for States to mandate this kind of thing, this kind of training, but to say if you go through it, there is a financial advantage for you. How might that work? How might we incentivize folks to do this kind of thing? Any ideas?

Mr. WADE. Well, clearly on the pre-purchase side, as I said, historically the FHA did provide a concession on rate for consumers who took advantage of counseling. We think another variation on that theme, rather than a rate concession, might be a rebate to the consumer. I think if you look at the way the auto finance world works, they have kind of figured out that consumers seem to value a rebate back to them more than a slight break on the rate, even sometimes when the break on the rate will be more.

So I think there are a lot of creative ways that you can think about how to create an incentive to get consumers to take advantage of the counseling and to a certain extent reward them because it is going to create a better credit risk for the lender anyway. So it seems to me that some value ought to accrue to the borrower.

Chairman CARPER. So kind of a related item, we learned when our boys were actually old enough to start driving that we could realize—even though our insurance rate was going to go up, it would not go up by as much if our kids were good students.

Mr. WADE. Right.

Chairman CARPER. We learned that it would go up, but it would not go up as much if they would not only just take driver's ed in school, but also take a defensive driving course, and that incentivized us all. I am sure it does others, too.

Anybody else on these points before we move on? Yes, ma'am.

Ms. RASKIN. Yes, I would just add in terms of, you know, the teachable moments, at the time of a home purchase, that clearly is a teachable moment. And we have considered and there is a task force in Maryland that has been established for looking at improving financial literacy. But there can be gradations, too, because some of the proposals that have been put out have to do with home purchases involving a subprime loan or home purchases involving a certain kind of adjustable rate loan. So you can tie the literacy, obviously, the counseling, to particular kinds of purchases, and you can consider gradations.

Chairman CARPER. I am going to direct this question—I want to telegraph a pitch. I am sitting next to a guy who is in the Hall of Fame, the Baseball Hall of Fame, Jim Bunning, who has actually pitched no-hit games in both the American and National Leagues. With deference to him, I am going to telegraph a pitch, and the last question I am going to ask—I am not there yet, but the last question I will ask is in terms—three of our colleagues were here. There are probably four or five who did not come on the Subcommittee to be able to hear, although they have the ability in many cases to watch on television from their offices, and I am sure some of them and their staffs do.

The last question I will probably ask is a take-away for those of us who are here on this Committee, on our staffs, and those who did not come in person, take-aways from what you have heard said here today that you really think we should take to heart as Federal legislators. There are some things we can do. There are a lot of things we cannot do. We are not classroom teachers. We are not principals in schools. We do not write lesson plans for schools. But we can provide some money for counseling, for housing counseling. We can do some things with respect to reauthorization of FHA or providing regulations through a strong regulator for Fannie Mae and Freddie Mac. There are some things we can do, but there is a lot we cannot.

But just be thinking, if you will, as we come here to the end, about some things that you would really want us to take away. And it could be in sort of a form of a to-do list, but just lessons learned for us that you think you would especially like to emphasize.

And while you are thinking of that, Ms. Cohen, let me just say, you identified a number of initiatives where the Delaware Money School has partnered with a private sector financial institution. Let me just ask, how important do you feel these partnerships are? And does this contribute to making the courses that you offer more effective?

Ms. COHEN. The funding we receive is critical to the Financial Literacy Institute. Basically, the people on our staff are administrators, and we have these volunteer instructors. But the contributions we have make it possible for us to offer free classes. We do not offer anything that costs money. So we have had a problem now with the housing counselors who charge a fee. We can no longer advertise the class that has the fee because that is not the Money School policy.

If we did not have funding from our corporate sponsors, we would not exist. We have a small grant in aid from the State. I was told it was a big grant in aid, but according to our budget, it is small. But we subsist on these contributions.

Chairman CARPER. What are the incentives for financial institutions or others to make these contributions?

Ms. COHEN. CRA.

Chairman CARPER. Talk a little bit about that.

Ms. COHEN. I learned about this when I took this job. I did not realize that MBNA gave grants to schools when MBNA was in Delaware and existed. But the CRA officers look for ways to provide funding to programs that will meet their requirements for CRA credits, Community Reinvestment credits. Avanta called us last year—no. AIG called last year and said they wanted to put money in financial education, could I use $50,000? Well, I am a small——

Chairman CARPER. What did you say?

Ms. COHEN. I said, "Oh, no, I am not interested."

[Laughter.]

I wanted to start a program in prison, so I got money from AIG. We think financial education is critical in prisons.

In 2004, Citigroup came to us and said, "We do not want a 1-day women's conference. We want an ongoing financial program." Their sponsorship, which will be about a half million dollars through the end of this year, allowed us to create—to put momentum into our financial education program. And not only do we have a huge—we have a 1,500-women conference every other year, but we are able to advertise. We do not have a marketing budget unless someone gives us money with marketing dollars. We were able to bring the Purses to Portfolios program across the State. It is now being replicated in Philadelphia. It has been replicated in Florida. We were able to advertise. And not only did that bring women in, it increased the visibility of the Money School.

And so we really rely on corporate dollars. Our individual donors, we have generous individual donors, but that is a very small portion of our budget.

Chairman CARPER. I remember when I was in the House of Representatives on the House Banking Committee, and we had a big debate in the Committee on whether or not Community Reinvestment Act evaluations, CRA ratings should be made public or remain at the time private. And we had quite a debate in Committee and later on the floor, and those of us who felt that it was probably a positive thing for them to be made public prevailed. And we are really blessed in our States with a number of financial institutions who—it is almost a badge of honor for them to earn outstanding on their CRA.

Ms. COHEN. It is.

Chairman CARPER. And we have figured out by virtue—I am not sure if they would be quite as ardent about it if no one ever knew what an institution's CRA rating was. But it is public knowledge, and the institutions take great pride in not a race to the bottom but a race to the top.

Ms. COHEN. I think one of the things that people do not realize is we get our dollars from corporate sponsors. We also get a huge amount of volunteer help. We have a new finance director this week. We had somebody from one of our corporate sponsors come in and work with her.

When I first opened our office, we had no equipment. One of the corporate sponsors sent us a fax machine and a computer.

So they provide technical advice. They provide marketing advice. They will chaperone and judge our events. So it is a lot of time commitment. Our board is almost 50 percent corporate sponsors; the rest are from nonprofits and just public citizens who are interested.

So I think people do not realize how really vital community reinvestment is.

Chairman CARPER. Well, we do in our State.

Ms. COHEN. We do.

Chairman CARPER. All right. And this is really a chance for you to just tell us some of your closing thoughts along the lines that I outlined before when I telegraphed that pitch. Just take-aways for those of us who are here and those of us that are not.

Ms. RASKIN. Sure. Well, first of all, I do commend you for holding this hearing, and it really is quite forward-looking. And what I have most appreciated listening to the other testimony and listening to the comments of your Committee and your views is how you have been able to put financial literacy really into the context not just of the current crisis, which clearly has all our minds completely focused, but into the context of really the whole notion of consumer debt and the problems to come from that and looking back to see whether financial literacy can be made into an effective tool that can help mitigate the next set of issues that come our way. And for that I do really commend your vision.

In terms of another take-away, I would say that I would urge the Committee in its deliberations in considering reform to really build on what the States are doing in terms of enforcement, in terms of building an important set of tools to license and register and track and examine mortgage originators and lenders and the other players in this very diverse field. And I think you are considering legislation that does that, and, again, that the States do have a very strong base in this, and I think to build on top of that would be exemplary.

Chairman CARPER. All right. Thank you, Commissioner Raskin. Mr. Wade.

Mr. WADE. Sure. I also would like to commend you for this hearing. It is pretty timely given what is happening in the market today. I would just highlight, you know, five things right quick that I would see as take-aways from our perspective.

One, pre- and post-purchase counseling works, and so I think to the extent that we can make it more broadly accessible, it will help us avoid these kinds of problems in the future.

We have got to modernize the regulatory framework so that it, you know, obviously is set up to deal with the market that we have today, which is very complex and much different than we have ever had before.

Modernize FHA. It is a resource that the Federal Government has. It has been underutilized. It is right there, and it seems like it is an easy win.

Help us promote the industry standards so that we can ensure that the kind of counseling that is out there is high quality so that we can ensure consumers get something that will work for them.

And then you could also help us with the community outreach. We have offered the opportunity to have folks publicize the toll-free number that we are supporting, that belongs to the Homeownership Preservation Foundation, as well as, you know, help co-brand the Ad Council ads so that we can reach many more consumers who are in trouble out there so they can get the kind of help that they need.

Chairman CARPER. I am going to go back to one of your points, and that is modernization of FHA. Any particular do's or don'ts there that you would especially like to emphasize or underline?

Mr. WADE. Well, no particular dont's. I think the things that seem to be on the table all make sense: Increase the loan limits so the FHA can be much more competitive in a lot of the markets. Allow the FHA to be able to, obviously, adjust its risk premiums to take into account additional risk it might be taking on. Allow the FHA, particularly in this crisis, to be much more flexible than it would have been, than it would be normally, recognizing that we are in a crisis and we need every tool available to help consumers. And then, you know, clearly, if the FHA—and I know that they are thinking this through, but obviously finding a way to create incentives so that we can ensure consumers get access to counseling.

Chairman CARPER. Good. Thank you very much.

The last word to Ronni Cohen. Ms. Cohen?

Ms. COHEN. One of my very good sponsors has a big poster that says "Knowledge is your greatest asset." And so I really do urge you to do what you can for pre- and post-homeownership education. I think it is critical. And in Delaware, we have found it has been very successful, significantly helping the homebuyer.

Thank you.

Chairman CARPER. Thank you. This has been a wonderful hearing, and it is because of the testimony that you brought to us today, the ideas that you have brought to us today. Sometimes you have folks who testify, and it is almost like they are a silo or a stovepipe, and the interaction between the two and the interplay between the two is not that great. That has not been the case here at all today. And I think there has been a bit of a synergy that has flowed out of your testimonies, which has been most welcome and I think most helpful.

My colleagues and I may be submitting some additional questions in writing. We would ask that if you receive those, you respond to us promptly so that we could have the full record for this hearing.

And, with that having been said, again, it is great to see all of you. Welcome back to the scene of your earlier crimes when you were telling Paul Sarbanes what to say and what to do. You managed him well. We miss him.

Mr. Wade, thank you for the leadership that you provide in an important organization. And thanks for coming to Delaware to help celebrate INCALL's anniversary a few years ago.

And to Ronni Cohen, thank you for continuing to be just a terrific educator, even though you are no longer in the classroom of our schools where you were, again, just a terrific, a widely admired teacher. Thank you for continuing to have the heart of an educator and the heart of a teacher and making sure that a lot of folks in our State benefit from that.

With that having been said, I think this hearing is adjourned.

[Whereupon, at 3:48 p.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]

PREPARED STATEMENT OF SENATOR DOLE

Thank you, Chairman Dodd and Ranking Member Shelby, for holding this important hearing. Ever since my days as a Federal Trade Commissioner and as Deputy Assistant to President Nixon for Consumer Affairs, I have taken a great interest in financial literacy and how the American people can increase their financial acumen, especially when it comes to buying a home.

During my time in the Senate, I have made homeownership one of my top priorities. It is amazing how getting the keys to one's own home is like getting the keys to a better quality of life and a brighter future. Parents who own their homes provide a more stable environment for their children. These children do better in school and become more involved in the community, and the families are able to build wealth, many for the first time, thereby helping secure funds for higher education and retirement. Families who own their own residences are more likely to spend the money necessary to properly maintain the home, thereby improving the quality of their neighborhoods. These positive results have a ripple effect throughout the community...and the economy.

According to the United States Census Bureau, the homeownership rate in the first quarter of 2008 was 68.7 percent, unchanged from the fourth quarter of last year. This is down from its record high of 69.2 percent in the fourth quarter of 2004. According to RealtyTrac, as of March, foreclosure filings had increased 57 percent from the prior year. These national statistics point to the alarming fact that foreclosure filings continue to rise, and it appears that this trend may not end in the near term. However, in my home state of North Carolina, the situation, although serious, is less severe at the moment. Across our state, over the same period of time, foreclosure rates increased just 1.8 percent from a year ago and are down 18.6 percent from February.

By now, many of us have heard the stories of people who steered away from traditional mortgage products to more exotic financial vehicles in the hopes of lowering their monthly mortgage payment, or worse, to qualify for a larger mortgage than they could otherwise afford to repay. As a result, many consumers have been "stung" when their initial teaser or introductory mortgage interest rate reset to a higher level. If consumers have a better understanding of the terms and conditions of the mortgage products that they purchase, it is logical to assume that they might not enter into such contracts.

Furthermore, the forms that potential homebuyers have to complete when they are applying for a mortgage are quite complex — lengthy documents that are often laden with "regulatory-ese" and other legal jargon. These forms can confuse the person who is purchasing a home, which can result in folks not having a clear understanding of the terms of their lending agreement. I look forward to working with members of this committee to find common sense solutions for simplifying mortgage disclosures.

Again, Chairman Dodd and Ranking Member Shelby, thank you for holding this important hearing on financial literacy for homebuyers.

TESTIMONY OF

SARAH BLOOM RASKIN

MARYLAND COMMISSIONER OF FINANCIAL INSTITUTIONS

On behalf of the

CONFERENCE OF STATE BANK SUPERVISORS

On

FINANCIAL LITERACY SKILLS FOR HOMEOWNERS

Before the

SUBCOMMITTEE ON ECONOMIC POLICY

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

May 1, 2008

Good morning, Chairman Carper, Senator Bunning, and distinguished members of the Subcommittee. My name is Sarah Bloom Raskin, and I serve as Commissioner of Financial Institutions for the State of Maryland. I am happy to be here today to testify on behalf of the Conference of State Bank Supervisors (CSBS) on the importance of financial literacy counseling for potential homebuyers and new mortgage borrowers.

CSBS is the professional association of state officials responsible for chartering, supervising, and regulating the nation's 6,127 state-chartered commercial and savings banks, and 400 state-licensed foreign banking offices nationwide. For more than a century, CSBS has given state bank supervisors a national forum to coordinate, communicate, advocate and educate on behalf of state bank regulation. In addition to banks, most CSBS members also have licensing and supervisory responsibilities for mortgage companies.

States have been active in mortgage regulation since the 1980s, when the first states passed mortgage broker licensing laws. All 50 states, plus the District of Columbia, have now adopted some form of regulatory oversight of the residential mortgage industry. By the most recent count states have jurisdiction over more than 88,000 mortgage companies nationwide, with 68,000 branch locations and around 360,000 loan officers and other professionals.

Chairman Carper, I certainly do not need to tell you what an important role states have always played in the development and oversight of essential financial services in this country. Your understanding and support of the states' role in financial regulation are well known and longstanding, and we deeply appreciate them.

But for members of the Committee who may not be familiar with this role, I want to emphasize the importance of maintaining a system of local oversight and accountability for this most personal of financial products. For more than four years, we at the state level have been working on solutions to the challenges raised by the revolution in mortgage finance during the 1990s, and the fragmented system in place to supervise its players.

CSBS began with a vision for a national licensing system, and has moved on to coordinated regulatory policy with the federal banking agencies, enhanced examiner training, and pilot programs for coordinated examinations of mortgage lenders. Our goal, like yours, is a streamlined, consistent system of oversight that protects consumers and enforces best practices while maintaining a stable flow of credit through our markets. Pre-loan counseling, and follow-up counseling to new borrowers, is a key element of these best practices.

The traditional mortgage loan was an exercise in trust and partnership between borrower and lender, with both parties having a stake in making sure that the borrower's decision to buy and finance a home was prudent and sustainable over a considerable period of time. Securitization fundamentally changed the role of traditional depository institutions, as new players entered the origination and funding business. Much of the current difficulty in today's mortgage industry stems from the changes securitization made in the industry's incentives. Securitization rewarded volume and speed, not only in the making of first mortgages but also in the refinancing of these loans. It also rewarded and encouraged the creation of exotic mortgage products.

In short, these are not your parents' mortgages, and even a moderately informed consumer might be confused at the options now available to finance or refinance a home. I say "refinance" advisedly, because we see this as a major gap in mortgage education efforts. Borrowers who might have had a good understanding of their original, traditional mortgage often refinanced into exotic instruments that were very different from the loans they'd been paying for years.

Today's consumers have the advantage of choosing from a wide range of mortgage products, which allows informed borrowers to select a product that best meets their financial situation and long-term plans. Given the variety of these choices and their complexity, several states have included suitability-type requirements in their licensing standards for mortgage lenders.

Without minimizing the importance of homebuyer and homeowner counseling and education, I want to note that the importance of combining these efforts with regulatory initiatives to bring greater transparency and accountability to the mortgage origination process. I mentioned the CSBS/AARMR Nationwide Mortgage Licensing System, which launched this past January in seven states. This program already tracks more than 4,000 mortgage companies and 9,600 loan officers. This tracking is a crucial complement to consumer education. By year-end, we expect to have 18 states in the system, and will begin to build a structure that allows consumers to check on the license status of a company or a loan officer, and find out about enforcement actions taken by participating state regulators.

While many efforts are now underway to counsel borrowers in trouble, we all understand that by the time a borrower faces foreclosure, we have already missed many opportunities for education and outreach.

For the borrowers in trouble, in fact, counseling alone may not be enough. This is a multi-faceted problem, with many roots and implications, and demands a multi-faceted approach. In Maryland, we now see the need for housing counseling offices that provide not only counseling, but also other basic services, such as litigation support. Borrowers who have been victims of predatory lenders need help in determining whether and how they can seek redress and remediation. Of greatest concern, we are now exploring staffing these counseling offices with social workers who can help with such drastic situations as foreclosure-related suicide threats and emergency shelter. These are not the traditional functions of a state banking department or a housing counseling agency -- but at the state level we are used to doing whatever the situation calls for, and we generally have the flexibility to do so.

And borrowers are not the only ones who need counseling. As I said, my agency and others are now being asked to cope with unprecedented circumstances; so are many housing agencies and housing advocates. The Massachusetts Attorney General's office, for example, has set up the Pro Bono Foreclosure Assistance project in cooperation with the state's bar association leaders. The project held a two-day seminar on foreclosure defenses, and trained more than 110 people; the fee for admission was an agreement to accept one foreclosure case on a *pro bono* basis.

The key, therefore, is to make sure that borrowers have the information they need to choose the product most appropriate for their needs and their financial condition. One ironic benefit of the current crisis is that it is showing us what borrowers didn't know, and needed to – thus, financial literacy programs can learn from this experience and readjust to help prevent future crises.

A good financial literacy program includes at least three essential elements:

1. Participant involvement. The process of buying a home and applying for a mortgage is intimidating, but it's not rocket science. Consumers gain confidence when they can identify the pieces of the process they already know, so a good training program should begin with the instructor asking questions that students can yell out the answers to. New York State's financial literacy training, for example, starts with asking students what they spent money on before getting to class, or what they spent money on the day before. They differentiate between spending on needs and spending on wants, and go on from there.

2. Training the trainers is essential, and often neglected. Financial literacy instructors need to know not only the nuts and bolts of personal finance, but also the psychology of money and how adults learn. How does peer pressure affect decisions? How does advertising affect decisions? What is the difference between needs and wants? How have they decided what type of house to look for? How have they decided how much money they can afford for mortgage payments?
3. Financial literacy training is most effective when it can capitalize on "teachable moments" – that is, teaching when the student wants the information, and when it will stick. Purchasing a home should be one of those moments when people are paying attention and trying to learn, and willing to change their behavior when necessary.

States have launched a wide range of education efforts for homebuyers, homeowners, and their advocates, and put measures in place to require or encourage lenders to educate borrowers themselves. Federal and state governments should endorse and promote the National Industry Standards issued last fall by HUD, NeighborWorks®, and a host of industry leaders; we are and should be looking for ways to help nonprofit counselors achieve and demonstrate compliance with these standards.

We can and should work together to set similar standards for broader financial literacy programs. Maryland's Cooperative Extension Service, based at the University of Maryland, has set standards for its Financial Education curriculum, and is providing train-the-trainer workshops that lead to certification of graduates as Financial Education Specialists. The National Industry Foreclosure Counseling Standards include a certification requirement; it would be appropriate for broader financial education standards, as well. Basic homeownership education includes a great deal of financial education, and default counseling includes even more. Any default counseling program, for example, should begin with the borrower's laying out a budget and prioritizing expenses.

Federal and state governments can and should present a better-aligned approach to building the capacity of homeownership and financial education nonprofit sector. For example, HUD could establish a matching grants fund to encourage states to raise or pledge funds to financial education; HUD could make "Financial Education Block Grants" for states to pass through to the counseling organizations best equipped to reach the borrowers who need these services most. HUD currently offers housing counseling grants directly to nonprofit counselors and to large jurisdictions through CDBG grants, which in turn sub-grant out to counseling organizations. This does not help us achieve our broader aims, because states need the leverage of controlling the funding in order to persuade applicants to commit to industry-wide standards. If federal-level coordination is not realistic, states should develop an approach to setting standards in exchange for sustained support to the counseling sector (including finding a renewable funding source).

The National Mortgage Licensing System proposed and developed by CSBS and AARMR comes at the issue from the other side, requiring standards of education for mortgage bankers and brokers as a condition for licensure. While in forums like these we tend to focus on the need to educate the consumer, in the structure of today's marketplace, it is often equally important to educate the lenders, or the lenders' agents.

As I mentioned, the initiatives currently underway to provide counseling and education for troubled borrowers will give us insight into the most effective strategies for financial education going forward. I want to mention several programs now underway at the state level:

- The Lieutenant Governor of Delaware, John Carney, established a task force on foreclosure prevention last year, which maintains a website that aggregates information and resources for consumers. The Delaware Office of the State Bank Commissioner has an active consumer education program, which works in partnership with several community-based organizations, including the Homeownership Preservation Foundation and NeighborWorks® America.
- Illinois's Anti-Predatory Lending Database Program provides for mandatory housing counseling when certain triggers occur, and the state's High Risk Home Loan Act requires lenders to advise borrowers that counseling may be in the borrower's best interest if a high-risk home loan becomes delinquent by 30 days. The Office of the Governor, the Illinois Housing Development Authority, and the Department of Financial and

Professional Regulation are sponsoring a series of Homeowner Outreach Days, where counseling is available.

- A new law in Massachusetts requires the Massachusetts Division of Banks to grant $2 million to non-profit counseling agencies to establish at least 10 regional foreclosure-prevention counseling agencies. Part of the grant money was also awarded for subprime ARM counseling, for borrowers not yet in default. The grant money comes from licensing fees, so that the industry is funding these services through the Division. The Division has also established a partnership with NeighborWorks® and several area counseling agencies to help homeowners in difficulty by seeking 30- to 60-day stays in the foreclosure process for borrowers who avail themselves of counseling. MassHousing is making $250 million available to help refinance qualified lower-income borrowers who may have been victims of predatory lenders, after the borrower completes screening and counseling with one of several approved counseling agencies. The Massachusetts Attorney General's Office, working through the Legal Advocacy and Resource Center and the Volunteer Lawyers' Project, has established a foreclosure hotline that screens callers for eligibility for legal support, and refers them where appropriate.
- The New York State Banking Department has joined with state legislators to sponsor daylong foreclosure prevention forums throughout the state, bringing borrowers face-to-face with their loan servicers, housing counselors and government agencies. The state legislature has just

designated $25 million for housing counseling and legal services to prevent foreclosures; this is on top of the $1.5 million now being awarded by the Banking Department to not-for-profit organizations to provide direct foreclosure prevention counseling or legal services. That $1.5 million is funding provided from settlements of enforcement actions against subprime lenders. Additionally, a new state law requires that the commencement of every foreclosure action include a notice that encourages the homeowner to seek advice from a housing counselor or lawyer. Pending legislation would extend this notice requirement to delinquent borrowers who are still at least 60 days ahead of legal action.

- North Carolina law requires independent counseling for high-cost home loans and reverse mortgages. For borrowers facing foreclosure, the state has developed a network of 20 local housing counseling agencies that can provide face-to-face counseling with homeowners who need more assistance than the national HOPE hotline can offer.
- Pennsylvania Secretary of Banking Steven Kaplan recently issued a series of radio PSAs that invite callers to contact the agency's consumer services division, which can refer them to the network of housing counselors approved and funded by the Pennsylvania Housing Finance Agency (PHFA). PHFA has its own housing counseling initiative, which includes consideration of two loan products (REAL and HERO) that were developed in response to the current mortgage crisis.

- Washington State's Homeownership program includes a broad media campaign to inform pre-purchase, post-purchase and delinquent homebuyers about how and where to obtain counseling and legal assistance. The state's Homeowners Security Task Force has recommended that the state provide financial resources to make more education and counseling available to first-time homebuyers and delinquent borrowers, and providing tax credits and other incentives to mortgage originators that provide financial resources to recognized consumer education and counseling providers.

One theme that recurs throughout these initiatives is our recognition that the lender is not always the best, or even the most appropriate, provider of financial education or counseling. Especially once a borrower becomes delinquent, a real or perceived adversarial relationship with the lender can make meaningful communication difficult. Therefore, our agency and others seek opportunities to cooperate with third parties such as the NeighborWorks affiliates, faith-based organizations, and other not-for-profit consumer advocacy groups, and we encourage our licensees to do the same.

While CSBS has advocated a more systemic nationwide system for working with delinquent mortgage borrowers and homeowners in foreclosure, we believe that any federal initiative to improve consumer protection must recognize, support and not interfere with the states' ability, through legislative and enforcement authority, to protect consumers from emerging problems. It is crucially important not to undercut the work we have already done and are continuing to do. Federal legislation should build on state expertise and efforts to protect consumers. Our uniform licensing initiative is only one part of this effort.

Congress has the opportunity to create a new system of state and federal coordination for protecting homeowners and enforcing best practices in the mortgage lending industry. Consumer education and counseling are crucial elements of those best practices, and CSBS would support federal efforts to support and encourage these practices. We ask, however, that you remember that when it comes to protecting consumers, even globally funded mortgages are originated locally. Grassroots outreach and education programs are more effective, more efficient, farther-reaching and longer lasting than "top down" initiatives.

Thank you for inviting me to testify on this important subject today. I will be pleased to answer any questions the Committee may have.

Statement of

Kenneth D. Wade
Chief Executive Officer

Neighborhood Reinvestment Corporation
(now *doing business as* NeighborWorks® America)

Before the
Senate Banking, Housing and Urban Affairs Committee
Economic Policy Subcommittee
(Room 538, Dirksen Senate Office Building)

Hearing
"The More You Know, the Better Buyer You Become:
Financial Literacy for Today's Homebuyers"
May 1, 2008
2:00 P.M.

Chairman Carper, ranking member Bunning and Members of the Subcommittee, my name is Ken Wade. I serve as Chief Executive Officer of NeighborWorks America, and I appreciate the opportunity to talk with you today about the importance of financial literacy (particularly for homebuyers) and the work that NeighborWorks America is doing to help Americans not only buy a home, but stay in their homes and build their futures.

NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation and is the original community/public/private partnership model, with locally-driven, highly-leveraged and efficient community development as its hallmark. Our Board of Directors is comprised of the heads of the federal financial regulatory agencies (the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) along with the Secretary of HUD.

NeighborWorks America works with a national network of 234 community-based nonprofit organizations, serving more than 4,450 urban, suburban and rural communities across the United States -- in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

Let me state at the outset that the importance of quality consumer education and counseling cannot be overstated; particularly when working with low- and moderate-income and/or credit-impaired borrowers, or non-traditional mortgage products.

In talking about financial education, I'd like to highlight five specific areas that NeighborWorks America has focused on:

1. Financial Fitness
2. Pre-purchase Education and Counseling
3. Post-purchase Education and Counseling
4. Training, related to these activities; and
5. National Industry Standards for Homeownership Education and Counseling

1. Financial Fitness:
NeighborWorks America developed its "Financial Fitness" education program to help individuals and families develop sound money management skills. Currently, 90 NeighborWorks organizations are participating in the financial fitness program, and are providing services such as formal classes, individual counseling sessions for personal issues and questions, and peer support groups for continued sharing and learning. The program provides participants with general information about today's financial system, so that they will have the skills and knowledge to access financial products and succeed within the economy.

Common topics covered in the Financial Fitness program include:

- Setting financial goals and making decisions
- Knowing the importance of savings and investing
- Developing a budget and spending plan
- Tracking expenses
- Getting credit and using it wisely
- Understanding and repairing credit reports, stressing the importance of paying bills on time
- Using banking and other financial services
- Protecting oneself against consumer scams and predatory lending

Financial education is a critical need both for consumers and for communities. For consumers, financial education is the key to protecting their assets and building wealth — regardless of their incomes. For communities, financial education programs can help promote stronger and more stable neighborhoods, where residents are more resistant to downturns in the economy and other financial threats.

Financial education can help families avoid common pitfalls, and help them to learn the financial management and planning skills needed to make the most of their income, savings and assets.

A recently released study, *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum Upon Consumers' Behavior and Confidence*, (conducted by the FDIC, and administered by the Gallup Organization) revealed the following about our program participants:

- Over 50% realized a reduction in debt
- Retirement account payments increased from 14% to 31% participation
- 69% increased savings;
- 84% reduced the number of credit cards currently accessible;
- 91% feel in control of their money
- 95% that used a budget at end still use one

In addition to supporting the 90 NeighborWorks organization currently involved in this initiative:

- NeighborWorks America offers Financial Fitness training at NeighborWorks Training Institutes, four times each year. Since 2001, more than 900 counselors have been trained through this course.
- A Financial Fitness e-learning pre-requisite course for practitioners has been developed to optimize facilitated classroom learning; and
- A web-based reporting tool has been developed to accurately track the work of all 90 participating organizations.

2. Pre-Purchase Education and Counseling

NeighborWorks America, as a national public nonprofit organization working to expand affordable housing opportunities and revitalize communities, has a 30-year history of supporting lending to non-conforming borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase housing education and comprehensive individual counseling to more than 500,000 first-time and ethnic minority buyers and by working with borrowers to improve their credit rating, when warranted, local NeighborWorks organizations are able to prepare borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

It's important to point out, particularly in this time of rising foreclosure rates, that NeighborWorks America has been tracking the loan performance of the many families assisted by NeighborWorks organizations over the years, and these loans continue to perform well.

Our research has shown that the best defense against delinquency and foreclosure (or having a borrower obtain an inappropriate mortgage product, or a predatory loan) is objective education and advice before the borrower begins shopping for a home and selecting a mortgage product. And our research has shown that the best comprehensive homeownership counseling is provided through third-party nonprofit agencies (including local NeighborWorks organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interests first. We have also found that homeowners' odds of success are increased even further when they have access to post-purchase counseling and homeowner education.

3. Post-Purchase Education and Counseling

While housing education and counseling before the purchase of a home is definitely one of the best defenses against foreclosure, unfortunately that advice comes too late for the many families already in a problematic mortgage product or currently facing foreclosure.

Post-Purchase education and counseling has long been a vital part of NeighborWorks America's homebuyer education process because it supports successful long-term homeownership.

All local NeighborWorks affiliates include post-purchase education and counseling in their range of services, and NeighborWorks America is a leader in providing post-purchase training and certification at its national NeighborWorks Training Institutes and through the NeighborWorks Center for Homeownership Education and Counseling.

For some buyers the move from renting to owning can be an easy transition, but for others it's a challenging path through unanticipated repairs, life crises (illness, loss of a job, divorce, death of a spouse) or other financial difficulties -- that sometimes end in foreclosure.

Post-purchase education and counseling help homeowners maintain the financial balance needed to continue as successful homeowners.

Post-purchase education and counseling help new homeowners learn how to maintain the home they're in and keep up with the payments. In the recent era of "too-easy credit", it's also important for new homeowners to understand how important it is to resist the many offers they will receive for credit cards, refinancing, home improvement loans, etc. Post-purchase counselors typically advise against taking on any new debt for at least a year after buying a home, to make sure the family is able to handle the mortgage payments and other costs associated with homeownership.

Counselors also urge homeowners to budget for an "emergency fund" to set aside to pay their mortgage and other bills if they run into unanticipated financial trouble.

Post-purchase education and counseling has also proven to be critically important in helping delinquent borrowers establish a budget, set priorities and find the most appropriate strategies to cure delinquencies and avoid foreclosure.

The FY 2008 Consolidated Appropriations Act named NeighborWorks America to administer the National Foreclosure Mitigation Counseling program, which gives borrowers facing foreclosure the opportunity to work with trained counselors to work through problems that would otherwise result in the loss of their homes

4. Training

NeighborWorks America's commitment to quality, objective homeownership education and counseling is evidenced through the founding of the NeighborWorks Center for Homeownership Education and Counseling (NCHEC) to train and certify housing counseling practitioners.

Since its launch in 2004, NCHEC has issued nearly 25,000 certificates of completion to housing counseling professionals in pre and post purchase education and counseling courses focused on homeownership and community lending, including more than 5,500 staff from HUD-approved counseling agencies. Counselors are encouraged to pursue professional development through targeted individual certification in pre-purchase homeownership education, individual homeownership counseling, post- purchase education and foreclosure intervention, and a cadre of other relevant topics.

Our experience demonstrates a strong need to strengthen capacity, specialized training and service delivery protocols for HUD-approved counseling agencies – particularly in the area of foreclosure intervention counseling, which requires an integral understanding of loss mitigation processes coupled with skilled customer service practices to achieve results.

In a survey of 1,800 participants, responding 3 to 18 months after they had attended NeighborWorks America sponsored training:

- 96 percent reported that the knowledge gained at the Institutes enhanced their work skills.
- 95 percent said that their Institute training had a positive effect on their work performance.
- 85 percent revised or improved existing work practices based on what they learned at the Institutes.
- 82 percent reported an increase in the number of resources they can use.
- 81 percent were more confident in their ability to perform their job as a result of their training.

The same evaluation found that 80 percent said their training improved how their organization operates.

Finally, the knowledge gained from training meant positive benefits for the community as well. Seventy-three percent indicated that their organizations became more effective in the community or with clients they serve as a result of the NeighborWorks training received.

5. National Industry Standards for Homeownership Education and Counseling

To ensure that consumers have access to the highest quality pre- and post-purchase homeownership education and counseling, NeighborWorks America, together with our partners, has developed National Industry Standards for Homeownership Education and Counseling. The National Industry Standards, a set of uniform guidelines, advance the highest quality of service across core areas ranging from competency of the counselor to performance in the delivery and recordkeeping.

Organizations including local, state and national housing counseling organizations; financial institutions, mortgage insurance institutions, the GSEs and government entities are encouraged to endorse and adopt the National Industry Standards and National Industry Code of Ethics and Conduct. These standards are a first step in evolving efforts to professionalize the homeownership education and counseling industry. To date, hundreds of organizations (including HUD, Fannie Mae, a significant number of major financial institutions and hundreds of counseling agencies) have endorsed these Standards.

These National Standards will play a vital role in ensuring consistency for consumers, and making homeownership education and counseling more broadly available will help borrowers make informed choices.

Closing

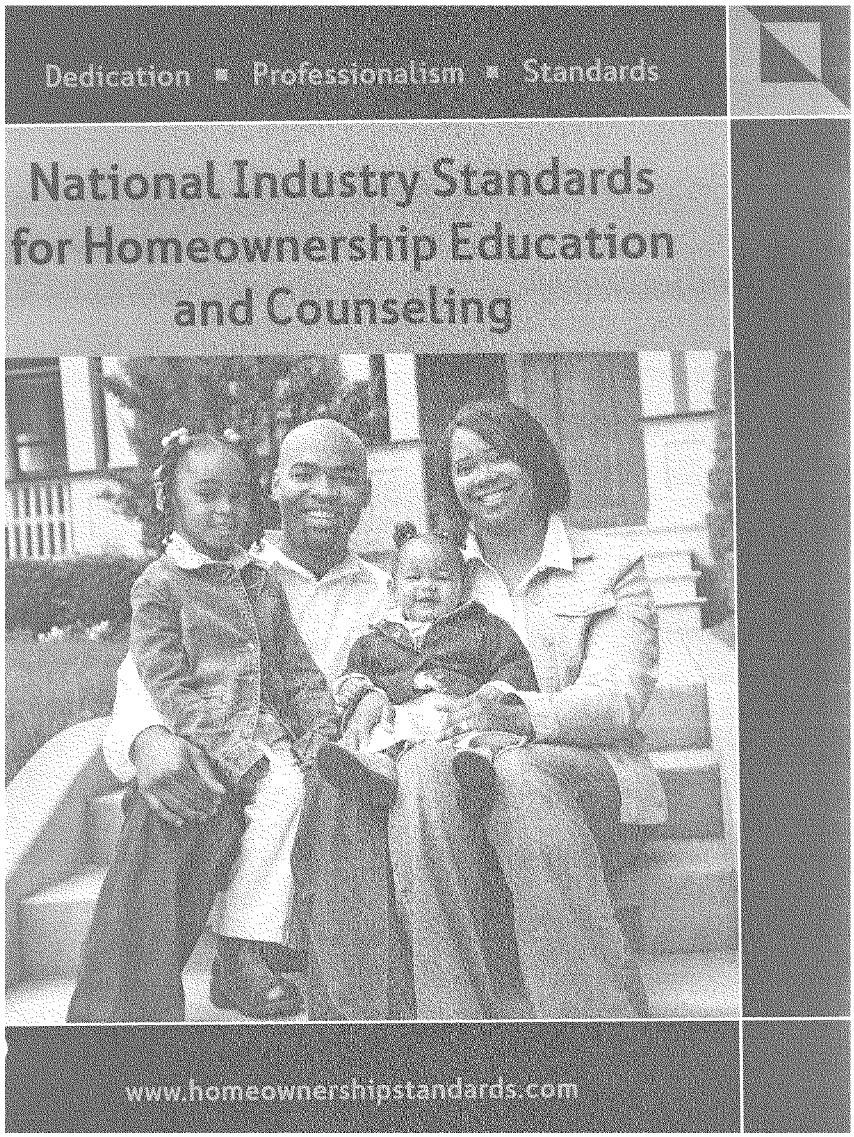
In closing, let me state that it is our strong belief that an informed consumer/homebuyer, knowledgeable of all of the options available to them, is the key to sustaining and strengthening both the family and the community.

NeighborWorks America has demonstrated, as have other nonprofit counseling agencies across the country, that pre-purchase education and counseling make a real difference in terms of preparing consumers for the responsibility of sustainable homeownership.

And post-purchase counseling provides the help needed when families hit unexpected problems or face major challenges – including the prospect of foreclosure.

The availability of high quality, unbiased financial education and pre-purchase and post purchase housing counseling continues to be a critically important element – and funding this important service continues to be an industry-wide challenge.

I thank you for the opportunity to speak with you, and stand ready to answer any questions you may have.


Dedication ▪ Professionalism ▪ Standards
National Industry Standards for Homeownership Education and Counseling
www.homeownershipstandards.com

The National Industry Foreclosure Counseling Standards are a set of training and performance benchmarks designed to provide guidance to those organizations and counselors providing foreclosure counseling services to consumers. They were created through the dedicated hard work of a group of leaders from lending institutions, community development organizations, real estate, mortgage insurance companies and the secondary mortgage market. These standards are an integral component of the National Industry Standards for Homeownership Education and Counseling and National Industry Code of Ethics and Conduct (launched in May 2007).

In light of current market conditions, with an increasing number of consumers falling into delinquency and facing foreclosure, the National Industry Foreclosure Counseling Standards aim to increase the professionalism, consistency and quality of service delivered by organizations and counselors providing assistance directly to consumers in delinquency and foreclosure. The standards ensure consumers are provided reliable information from highly trained professionals to combat the increasing wave of foreclosures, thereby increasing sustainable homeownership.

To review the complete set of National Industry Standards for Homeownership Education and Counseling, and National Code of Ethics and Conduct, visit the Web site www.homeownershipstandards.com.

National Industry Foreclosure Counseling Standards

The National Industry Standards for Homeownership Education and Counseling allow organizations and homeownership professionals to demonstrate that all clients receive consistent, quality service in homeownership education and counseling. The standards create a level of consistency in the industry and add to the professionalism of homeownership educators and counselors.

As the link between sustainable homeownership and counseling/education becomes increasingly clear, now more than ever the housing industry recognizes the need to ensure high quality education and counseling for households throughout the country. Seizing on the ever-changing market conditions, in 2005 a National Advisory Council (see Exhibit C for a list of member organizations) collaborated with other industry partners such as homeownership professionals; non-profit executive directors; local, state and national housing counseling organizations; financial institutions, mortgage insurance institutions, GSEs[1] and government entities to develop National Homeownership Industry Standards (including benchmark recommendations) and National Industry Code of Ethics and Conduct for Homeownership Professionals.

Organizations, counselors and educators are encouraged to endorse and adopt the voluntary National Industry Standards and National Industry Code of Ethics and Conduct. These standards are a critical first step in evolving efforts to professionalize and elevate the visibility of the homeownership education and counseling industry.

How to Utilize National Industry Foreclosure Counseling Standards

Organizations Providing Foreclosure Intervention Counseling: Organizations providing services in the highly-specialized area of foreclosure intervention counseling are encouraged to endorse and adopt the National Industry Standards for Homeownership Counseling-Foreclosure Intervention Specialty and sign the National Industry Code of Ethics and Conduct. At a minimum, organizations should integrate the recommended benchmarks from the National Industry Foreclosure Counseling Standards into their everyday business operations. Organizations and individual counselors are encouraged to strive to exceed the benchmarks.

The National Industry Foreclosure Counseling Standards are integral to the National Industry Standards for Homeownership Education and Counseling and the National Industry Code of Ethics and Conduct. The Foreclosure Counseling Standards are integrated into the National Industry Standards for Homeownership Education and Counseling as an added specialty that counseling organizations can adopt, based on service delivery. For example, if an

[1]GSE is an acronym for government-sponsored enterprise.

organization provides comprehensive services including pre-purchase education, counseling and foreclosure intervention, they will be encouraged to adopt the standards in all three categories (homeownership education, homeownership counseling, foreclosure counseling). For those organizations that only provide foreclosure intervention counseling, this affords the opportunity to adopt the National Foreclosure Counseling Standards directly related to that specialty, along with signing the National Industry Code of Ethics and Conduct.

Many organizations that currently provide foreclosure intervention counseling may find their programs meet or exceed the recommended benchmarks for industry standards and can readily adopt these National Industry Standards and National Industry Code of Ethics and Conduct.

For more information on how to demonstrate adoption of the National Industry Standards for Homeownership Counseling-Foreclosure Intervention Specialty and the National Industry Code of Ethics and Conduct, visit www.homeownershipstandards.com.

Purpose of Standards: To ensure consistency in the quality of foreclosure intervention counseling efforts nationwide, and adopt industry best practices.

In order to best serve clients, organizations providing homeownership counseling and individual homeownership counselors providing foreclosure intervention services agree to adopt the following:

Core Operating Standards

1. **Competency:** Possess a strong knowledge in the area of mortgage default and/or foreclosure intervention counseling, specifically relating to the current industry practices of loss mitigation to include loan repayment, forbearance, modification, refinance, loan assumption, short sale, deed-in-lieu, community referrals, and other remedies available to the homeowner to avoid foreclosure. The counselor should understand the structure of the primary and secondary markets, the collection and loss mitigation functions of those entities collecting mortgage payments, financial management and budgeting, and be familiar with state and federal regulations regarding the foreclosure process. The counselor should possess the skills to obtain pertinent client information, analyze financial and property data and draft a comprehensive written Action Plan (see Exhibit B) based on the client's goals outlining the resultant recommendations for foreclosure avoidance or sale.

   - **Recommended Benchmark:** Individuals new to the field of foreclosure intervention counseling should obtain appropriate orientation, introductory level training and prerequisite curricula during the initial 6-months of employment.

   - **Recommended Benchmark:** Those counselors new to foreclosure intervention and default counseling should (prior to seeing clients) be involved in an on the job training/coaching/mentoring program for at least 90 days.

2. **Skills:** Exhibit professional communication (written and verbal), organizational, listening, customer service, cultural competency and time management skills. Foreclosure Intervention

Counselors must demonstrate a "hands-on" knowledge of the remedies available to the homeowner to avoid foreclosure including negotiation and critical thinking skills, and demonstrate an ability to provide timely crisis counseling to families in need.

3. **Training:** As soon as possible but no later than within 12-months of being hired, Foreclosure Intervention Counselors will obtain minimum training equivalent to no less than 30 hours of facilitated instruction, utilizing a variety of methods including lecture, interactive, demonstration, on-line and case study.

   - **Recommended Benchmark:** Those counselors new to foreclosure intervention and default counseling should (prior to seeing clients) be involved in an on the job training/coaching/mentoring program for at least 90 days. To best meet the client's needs in this highly specialized field, facilitated training in foreclosure intervention and default counseling should be completed within six months and no later than one year to obtain the competency and skills listed under the Core Operating Standards.

4. **Certification:** Certification is considered critical in the industry. Subsequent to the requisite training, a comprehensive exam consisting of approximately 100 questions must be administered with a demonstrated proficiency of 80% passing. The exam will cover foreclosure intervention counseling competency content meeting the standards listed under the Core Operating Standards and demonstrated in the related activities identified in Exhibit A herein.

   - **Recommended Benchmark:** Certification should be completed as soon as reasonably possible, but no later than within 18-months of employment.

5. **Continuing Education:** Complete a minimum of 10 hours of continuing education annually in subjects primarily relative to the core content and delivery of foreclosure intervention and default counseling.

   - **Recommended Benchmark:** Professional certification continuing education requirements may meet or exceed this standard.

6. **Foreclosure Intervention Counseling Operations:** Implement effective program operations for foreclosure counseling including techniques, outreach and marketing of services available to the community, partnership building with private sector partners including servicers and lenders, fundraising, customer service, customer tracking, reporting, program evaluation, and program design.

   - **Recommended Benchmark:** These skills can be obtained through training and experience.

7. **Code of Ethics and Conduct Statement:** Sign and adopt the written National Industry Code of Ethics and Conduct policy that specifically addresses any real and apparent conflicts of interest, guidelines for professional behavior, privacy and confidentiality, payment for services, consultation, referrals, quality assurance and integrity.

Performance Standards

1. **Delivery:** Perform individual, personalized foreclosure intervention and default counseling to clients.

   - **Recommended Benchmark:** Content, delivery and format of the counseling is tailored to meet the needs of the client. Content and delivery should be done so in a culturally competent manner and in the preferred language of the client. Use of a translator or referral to an agency that provides adequate service in the appropriate language is recommended.

   - **Recommended Benchmark:** Clients should be counseled immediately (if possible) particularly when a high degree of certainty that foreclosure is imminent. At a minimum, upon request, clients should receive acknowledgement of inquiry within 48 hours of initial contact. When initial contact is made, clients should be assessed to determine the status of the client's mortgage and client urgency. Those clients that have a high degree of foreclosure should be prioritized for appointments.

   - **Recommended Benchmark:** Foreclosure Intervention Counselors must complete appropriate intake of client information to make proper and timely recommendations to the client to assist in avoiding foreclosure. Counselors must provide a comprehensive written Action Plan (see Exhibit B) to the client summarizing a statement of the problem, steps to be taken by the client, steps to be taken by the counselor, and the timeline necessary to accomplish these tasks.

   - **Recommended Benchmark:** Foreclosure Intervention Counselors should always instruct the client of the importance of making and keeping contact with the lender. Where possible, the counselor should attempt to contact the lender on behalf of the client to assess status and to further inform the lender of the proposed recommendations as specified in the written Action Plan (see Exhibit B).

   - **Recommended Benchmark:** Active, open client files should be closely monitored, with timely follow-up in accordance with the stated Action Plan. When no contact from the client has taken place for 3 consecutive months, the file may be classified as inactive.

- **Recommended Benchmark:** Where there is no mortgage delinquency, Foreclosure Intervention Counselors should provide basic financial management or credit counseling and encourage further homeownership education as a deterrent to future mortgage default.

- **Recommended Benchmark:** Client satisfaction surveys are used to evaluate the effectiveness of the counseling.

2. **Expected Counseling Outcome:** Upon completion of foreclosure intervention counseling, clients will understand the various options available to assist them to avoid foreclosure, the need to keep constant communication with their lender, and will have received a written Action Plan (see Exhibit B) outlining the necessary steps to achieve their desired objectives. After counseling, if the client determines that either they cannot afford to keep their home or no longer desire to keep their home, they will receive information relative to each of these options and how this action might have resultant civil and/or tax liability.

   - **Recommended Benchmark:** Foreclosure Intervention Counselor should collect pertinent information as outlined in Exhibit A.

   - **Recommended Benchmark:** Comprehensive, effective delivery should be determined based upon the individual needs of the client to reach their desired outcome. The minimum standard for delivery of individual foreclosure intervention counseling should be at least one session of at least 30-60 minutes, utilizing either face-to-face or telephonic mediums.

3. **Recordkeeping:** Collect and maintain specific information from clients in accordance with all laws and governing organizations (i.e., HUD, Intermediary, etc.)

   - **Recommended Benchmark:** An intake form should be completed and collected with client profile information to include contact information, services sought/provided, household size, ethnicity (optional), and household income. Additional information to collect from the client is outlined in Exhibit A.

   - **Recommended Benchmark:** Aggregate information for clients should be maintained including total number of persons served and other demographic information.

   - **Recommended Benchmark:** A checklist should be utilized to ensure files are consistently maintained and meet reporting standards and quality assurance.

   - **Recommended Benchmark:** Files should be maintained in secured file cabinets and/or electronically in a secure data system in order to protect client privacy.

   - **Recommended Benchmark:** Files should be maintained for a minimum of three (3) years. Longer file retention requirements may be required if the household has received grant or loan assistance through state or federal subsidy programs. At the time of disposal, files should be shredded or electronic copies should be deleted.

4. **Reporting:** Utilize an electronic Client Management System for collecting and reporting data.

   - **Recommended Benchmark:** An electronic method in place for collecting reporting data may be as basic as an Excel spreadsheet or Access database application that captures needed data fields from each client, but *preferably* should be a software application compliant with HUD's CMS vendor list or equivalent. Visit www.hud.gov and refer to HUD's CMS vendor list.

5. **Service Thresholds:** Establish referral networks for individuals and families seeking services that the Foreclosure Intervention Counselor does not provide or possess sufficient competency to adequately and effectively deliver.

   - **Recommended Benchmark:** The Department of Housing and Urban Development (HUD) maintains a list of organizations and corresponding services (www.hud.gov). In addition, legal aid, tax professionals and other state or local agencies that may provide needed services aligned with foreclosure intervention including rescue funds should be sought.

Exhibit A

Minimum Standard Activities for Foreclosure Intervention and Default Counseling

1. Perform intake by gathering baseline information from client including:

    a. Client's goals/intent
    b. Reason for delinquency or default
    c. Client's financial situation and possibility of workout
    d. Client's loan type
    e. Home's value/condition
    f. Credit report
    g. Original loan documents, if available
    h. Demographic information: contact information, household size, household income, ethnicity-*optional*, etc.

2. Assess client's mortgage, payment status and urgency in the delinquency and foreclosure process

3. Develop loss mitigation options

4. Communicate with the servicer*

5. Submit loss mitigation package to servicer*

6. Negotiate with junior lien holders and Homeowners Association*

7. Create written action plan for foreclosure avoidance or client's preference

8. Provide follow up to client

9. Provide client with contact information for additional community services that might be available.

* When Applicable. Foreclosure Counseling can include a range of the activities depending on the client's financial situation and the severity of the mortgage delinquency. Specifically, activities 4, 5 and/or 6 from Exhibit A vary, and may not always be performed for a client.

Exhibit B

Foreclosure Intervention Counseling– Recommended Content for Written Action Plan

Recommended Features of the Action Plan

- State briefly why the homeowner is delinquent or in danger of becoming delinquent, including the involuntary inability to pay, unexpected increase in expenses, decrease in income, loan reset and/or other factor.
- Include an assessment of the property's condition and a discussion and calculation of equity, if any.
- Include a financial assessment that leads to the recommendations for resolving the delinquency (assuming that the client wants to and can afford to keep the house). Otherwise, discuss foreclosure in general, sale of the property, deed in lieu, short sale and possible tax consequences and/or deficiency judgment issues.
- State what steps the homeowner will take to resolve the delinquency and what steps the counselor will take to assist in this process.
- Include other contact information for community referrals which may be able to assist the client.
- Issued within 24 hours of counseling session (and immediately if face-to-face)

Exhibit C

National Advisory Council convened by NCHEC[2]

The National Industry Standards were developed by a broad representation of industry stakeholders comprising the National Advisory Council (facilitated by NCHEC). Companies and organizations include:

Bank of America

Chase

Chrysalis Consulting Group, LLC

Citi

Community Development Corporation of Long Island, Inc.

Consumer Credit Counseling Services of San Francisco

Countrywide Financial Corporation

Fannie Mae

The Housing Partnership Network

Federal Reserve Board

Freddie Mac

Minnesota Housing

Mortgage and Credit Center

Mortgage Guaranty Insurance Corporation (MGIC)

NAREB-National Investment Division (NID)

National Association of Realtors®

National Council of State Housing Finance Agencies

National Council of La Raza (NCLR)

NeighborWorks® America

NHS of Great Falls

University of North Carolina Chapel Hill

U.S. Department of Housing and Urban Development

Wells Fargo

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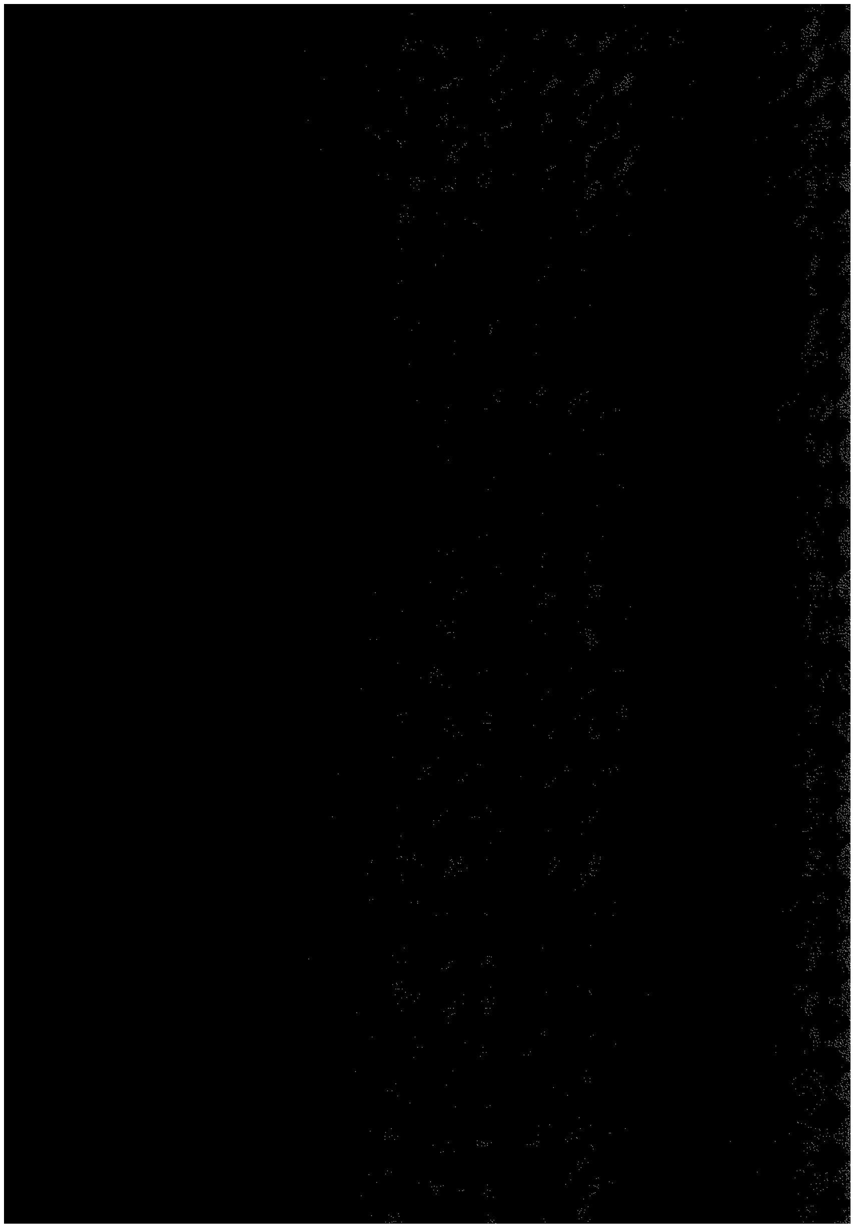
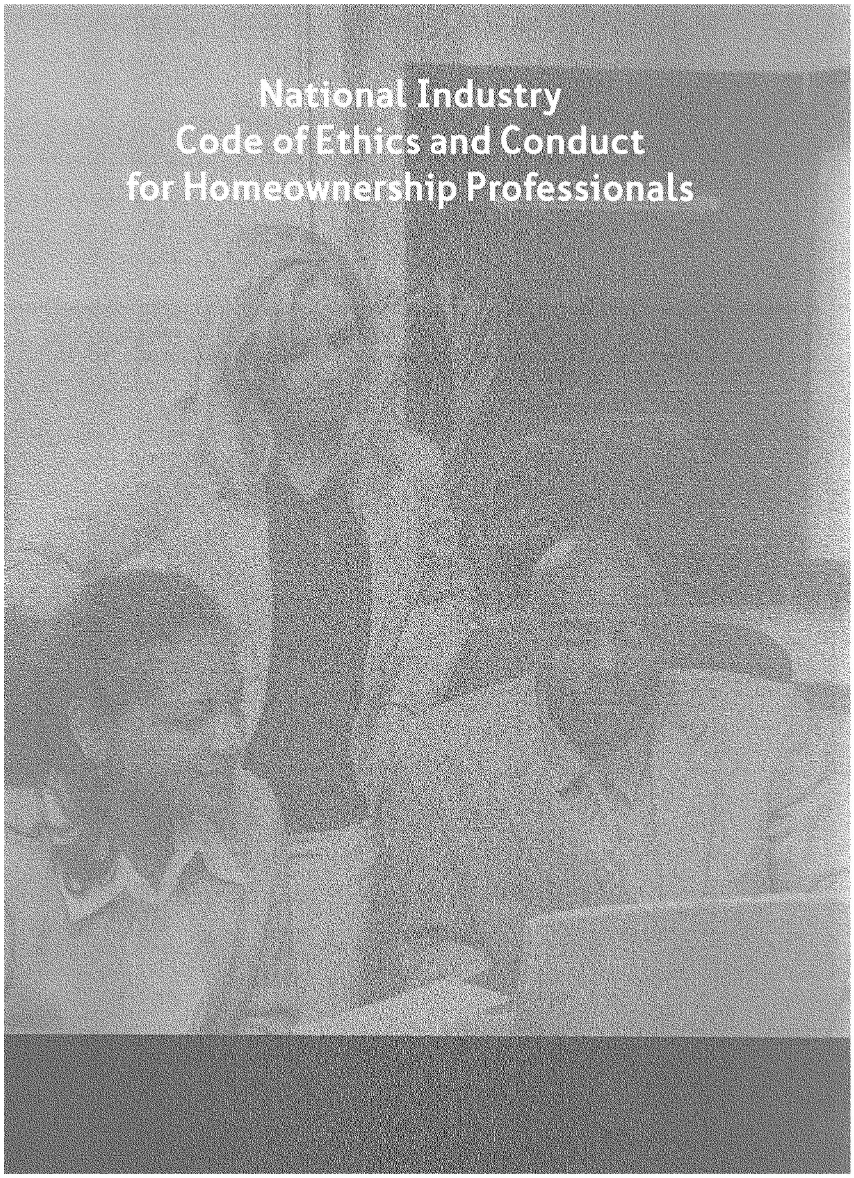
[2]NCHEC is an acronym for the NeighborWorks® Center for Homeownership Education and Counseling




National Industry
Code of Ethics and Conduct
for Homeownership Professionals

National Industry Code of Ethics and Conduct for Homeownership Professionals[1]

The National Industry Code of Ethics and Conduct for Homeownership Professionals[2] is a voluntary, self-governing standard for professional performance/conduct for homeownership counselors and educators that provide homeownership education and counseling services to consumers.

A National Industry Code of Ethics and Conduct for Homeownership Professionals offers a set of values and principles to guide conduct and decision-making in the homeownership education and counseling field. Homeownership professionals who adhere to the National Industry Code of Ethics and Conduct agree to provide quality education and counseling to clients.

How to Utilize the National Industry Code of Ethics and Conduct:

Counselors and Educators: The National Industry Code of Ethics and Conduct should be adopted by counselors and educators and adhered to in their everyday business operations. For more information on how to demonstrate adoption of these documents, visit www.homeownershipstandards.com.

Organizations: Organizations providing homeownership education and/or counseling services are encouraged to adopt these National Industry Code of Ethics and Conduct and ensure compliance with these ethics by their counselors and educators.

1. **Commitment to Clients**

   a. The primary responsibility of homeownership educators and counselors is to provide high quality education and counseling services to prospective and existing homeowners.

   b. Homeownership educators and counselors will act on behalf of a client and observe his/her best interest.

2. **Client Decision-Making**

   a. Homeownership educators/counselors will provide necessary tools, resources and information to assist their clients in making decisions about finances, home buying or homeownership based on the client's needs and preferences.

   b. In instances when clients experience literacy or language challenges, homeownership educators/counselors will take steps to ensure clients' comprehension. This shall include arranging for a qualified interpreter or translator or referring the client to a qualified language educator/counselor.

[1]The National Industry Code of Ethics and Conduct were developed by a collaborative group of industry partners.
[2]Homeownership Professionals includes both homeownership educators and counselors.

3. **Competence**

   a. Homeownership educators/counselors will provide services only within the boundaries of their education, training, certification or other relevant professional experience. Referrals will be provided to clients when essential services are beyond the scope of the individual or agency to provide.

   b. Homeownership educators/ counselors shall be culturally competent in their service area and sensitive to cultural differences and needs.

4. **Conflicts of Interest**

   a. Homeownership educators/ counselors will avoid actual and the appearance of conflicts of interest. They will inform clients when a real or potential conflict of interest arises and take all necessary steps to resolve the issue in a manner that makes the clients' interests primary and protects clients' interests. In some cases, protecting clients' interests may require termination of the professional relationship with proper referral of the client.

   b. Homeownership educators/counselors will not take unfair advantage of any professional relationship or exploit others to further their personal, religious, political, or business interests.

   c. Any potential conflicts of interest (such as a counseling agency providing low-cost loans), will be disclosed to clients in a written disclosure document.

5. **Privacy and Confidentiality**

   a. Homeownership educators/counselors will respect clients' right to privacy. Private information will not be requested from clients unless it is critical to providing services. Once private information is shared, privacy laws apply as well as client confidentiality.

   b. Homeownership educators/counselors will disclose confidential information only as specified by a valid written consent of client.

   c. Homeownership educators/counselors will not discuss confidential information in any setting unless privacy can be ensured. Counselors and educators will abide by privacy laws and keep information confidential and protected.

   d. Homeownership educators/counselors will not disclose clients' information, including their identity when responding to requests from members of the media without the client's express consent.

   e. Homeownership educators/counselors will protect the confidentiality of clients' written and electronic records and other sensitive information. Clients' records shall be stored in a secure location and not made available to others who are not authorized to have access.

f. Homeownership educators/counselors will take precautions to ensure and maintain the confidentiality of information transmitted to other parties through the use of computers, electronic mail, facsimile machines, telephones and telephone answering machines, and other electronic or computer technology. Disclosure of identifying information will be avoided unless specifically permitted by client.

g. Homeownership educators/counselors will dispose of clients' records in a manner that protects clients' confidentiality and is consistent with state statutes governing records and social work licensure.

h. Homeownership educators and counselors will be familiar with relevant laws and regulations with regard to local, regional, national privacy and confidentiality.

6. **Professional Behaviors**

a. Homeownership educators/counselors will not practice, condone, facilitate, or collaborate with any form of discrimination on the basis of race, ethnicity, national origin, sex, sexual orientation, age, marital status, political belief, religion, or mental or physical disability.

b. Homeownership educators/counselors will not use derogatory language in their written or verbal communications to or about clients. Accurate and respectful language will be used in all communications to and about clients.

c. Homeownership educators/ counselors will not participate in, condone, or be associated with dishonesty, fraud, or deception.

d. Homeownership educators/ counselors will not permit their private conduct to interfere with their ability to fulfill their professional responsibilities.

7. **Payment for Services**

a. When setting fees, homeownership educators/ counselors will ensure that the fees are fair, reasonable, and commensurate with the services performed. Clients will be informed of any applicable fees prior to the delivery of any services.

b. Homeownership educators/ counselors will not solicit a private fee or other personal remuneration for providing services to clients.

8. **Discontinuation of Services**

a. Homeownership educators/ counselors will close files and discontinue services to clients when such services are no longer required or no longer serve the clients' needs or interests.

9. **Consultation**

   a. Homeownership educators/ counselors will seek the advice and counsel of more experienced colleagues whenever such consultation is in the best interests of clients. Consultation will only be sought from colleagues who have demonstrated knowledge, expertise, and competence related to the subject of the consultation.

   b. When consulting with colleagues about clients, homeownership educators/ counselors will disclose the least amount of information necessary to achieve the purposes of the consultation.

   c. Client information will only be shared with other colleagues with the written consent of the client.

10. **Referrals**

   a. Homeownership educators/ counselors will limit services to those within their training and expertise and refrain from giving legal, tax, accounting advice unless licensed to do so. Non-homeownership issues should be referred to other appropriate agencies to serve clients fully.

   b. Homeownership educators/ counselors shall not give payment or receive payment from an outside source for a referral unless professional services of comparable value have been provided.

11. **Integrity of the Homeownership Education and Counseling Profession**

   a. Homeownership educators/ counselors will work toward the maintenance and promotion of high standards of practice for the industry.

   b. Homeownership educators/ counselors will uphold and advance the values, ethics, knowledge, and mission of the profession. They will protect, enhance, and improve the integrity of the profession through service development, partnerships and active participation in the industry.

   c. Homeownership educators/ counselors will contribute time and professional expertise to activities that promote respect for the value, integrity, and competence of their profession.

National Industry Standards for Homeownership Education and Counseling

Code of Ethics and Conduct

By signing below, I acknowledge receipt of the National Industry Code of Ethics and Conduct for Homeownership Professionals and agree to adopt and adhere to the guidelines as outlined.

Signature: ______________________________

Print Name: ______________________________

Company: ______________________________

Address: ______________________________

____

Telephone: ______________________________

Email: ______________________________

Web Address: ______________________________

Date: ______________________________

Each staff member providing homeownership services must complete and sign the Code of Ethics and Conduct agreement. (Photocopy this form as needed.)

Return completed forms to:
National Industry Standards
c/o NeighborWorks® America
1325 G Street, NW., Suite 800
Washington, D.C. 20005

Or, fax to: 202-376-7276, Attn. National Industry Standards.

To adopt the National Industry Foreclosure Counseling Standards
and the National Industry Code of Ethics and Conduct
visit www.homeownershipstandards.com

For more information and to download a copy of the
National Industry Standards for Homeownership Education
and Counseling visit www.homeownershipstandards.com
or call 1-866-472-9477

Advisory Council for the National Industry Standards for Homeownership Education and Counseling

Bank of America
Chase
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Consumer Credit Counseling Services of San Francisco
Countrywide Financial Corporation
Fannie Mae
The Housing Partnership Network
Federal Reserve Board
Freddie Mac
Minnesota Housing
Mortgage and Credit Center
Mortgage Guaranty Insurance Corporation (MGIC)
NAREB-National Investment Division (NID)
National Association of REALTORS®
National Council of State Housing Finance Agencies
National Council of La Raza (NCLR)
NeighborWorks® America
NHS of Great Falls
University of North Carolina Chapel Hill
U.S. Department of Housing and Urban Development
Wells Fargo

The Advisory Council for the National Industry Standards for Homeownership Education and Counseling was convened and staffed by the NeighborWorks® Center for Homeownership Education and Counseling (NCHEC).

Mike Haley, Minnesota Housing
Chairman

Cora Fulmore, Mortgage & Credit Center
Vice-Chair

Jayna Bower, NeighborWorks® America
Director, NCHEC

National Industry Standards for Homeownership Education and Counseling
1325 G Street, Suite 800
Washington, DC 20005
www.homeownershipstandards.com
866-472-9477

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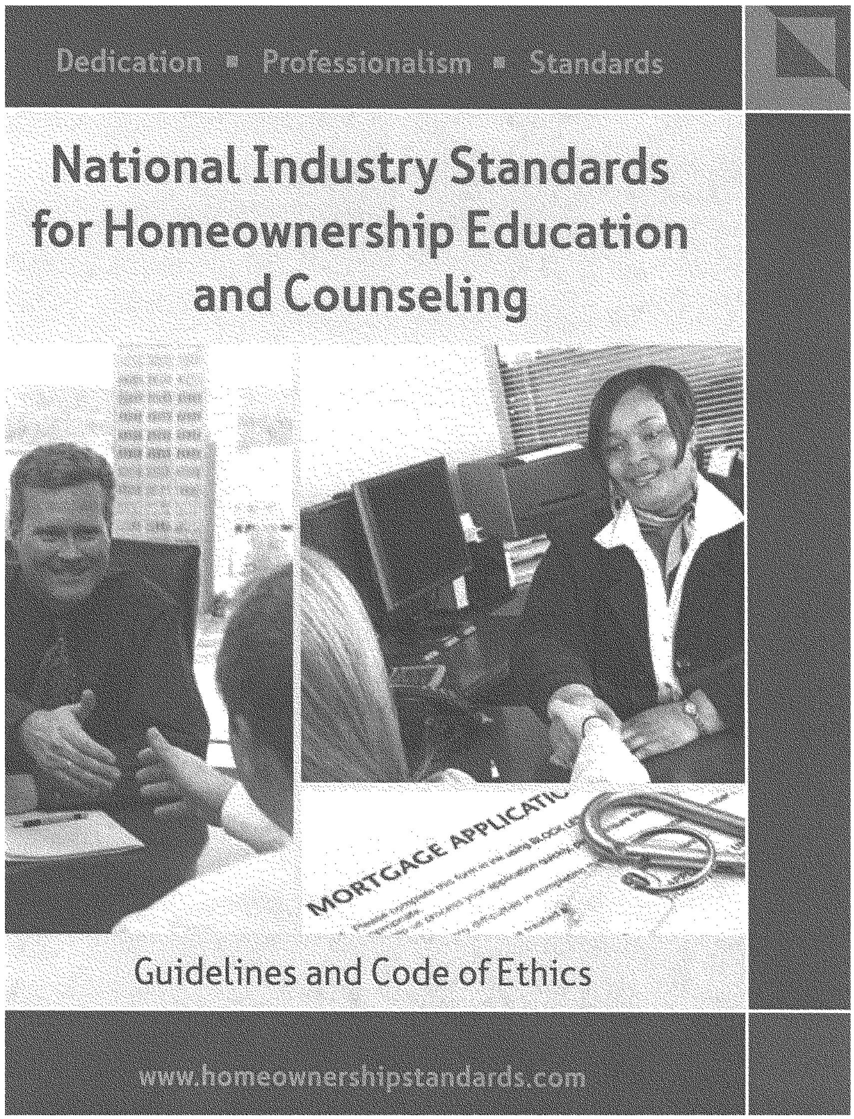
Dedication ■ Professionalism ■ Standards
National Industry Standards for Homeownership Education and Counseling
Guidelines and Code of Ethics
www.homeownershipstandards.com

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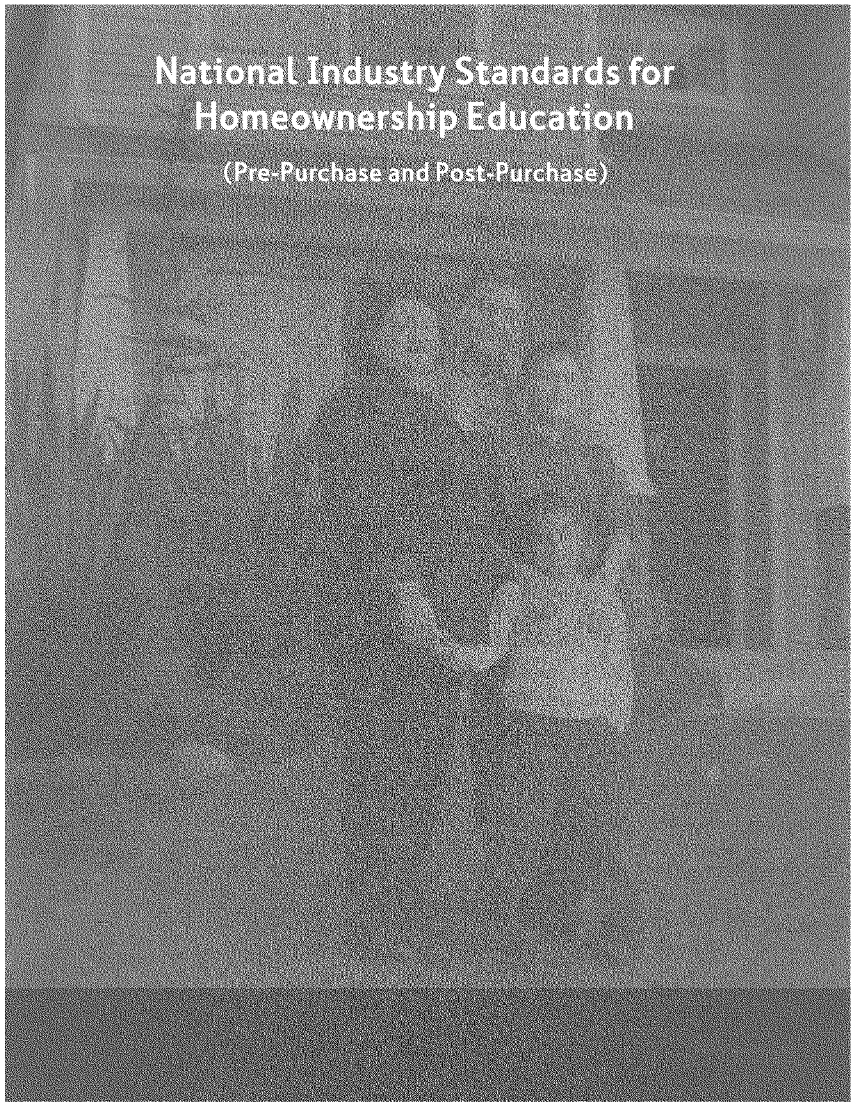
National Industry Standards for
Homeownership Education
(Pre-Purchase and Post-Purchase)

National Industry Standards[1]

The National Industry Standards for Homeownership Education and Counseling allow organizations and homeownership professionals to demonstrate that all clients receive consistent, quality service in homeownership education and counseling. The standards create a level of consistency in the industry and add to the professionalism of homeownership educators and counselors.

As the link between sustainable homeownership and counseling/education becomes increasingly clear, now more than ever the housing industry recognizes the need to ensure high quality education and counseling for households throughout the country. Seizing on these market conditions, in 2005 a National Advisory Council (see Exhibit C for a list of member organizations) collaborated with other industry partners such as homeownership professionals; non-profit executive directors; local, state and national housing counseling organizations; financial institutions, mortgage insurance institutions, GSEs[2] and government entities to develop National Homeownership Industry Standards (including benchmark recommendations) and National Code of Ethics and Conduct for Homeownership Professionals.

Organizations, counselors and educators are encouraged to endorse and adopt the voluntary National Industry Standards and National Industry Code of Ethics and Conduct. These standards are a first step in evolving efforts to professionalize and elevate the visibility of the homeownership education and counseling industry.

How to Utilize National Industry Standards

Organizations Providing Homeownership Education: Organizations providing homeownership education are encouraged to endorse and adopt the National Industry Standards for Homeownership Education and sign the National Industry Code of Ethics and Conduct. At a minimum, organizations should integrate the recommended benchmarks from the National Industry Standards for Homeownership Education into their everyday business operations. Organizations and individual educators are encouraged to strive to exceed the benchmarks.

Most organizations that currently provide homeownership education and counseling will find their programs meet or exceed the recommended benchmarks for industry standards and can readily adopt the National Industry Standards and National Industry Code of Ethics and Conduct.

For more information on how to demonstrate adoption of the National Industry Standards for Homeownership Education and the National Industry Code of Ethics and Conduct, visit www.homeownershipstandards.com.

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[1]National Industry Standards for Homeownership Education and Counseling are adopted on a voluntary basis by organizations and practitioners, incrementally over a period of time.
[2]GSE is an acronym for government-sponsored enterprise.

Purpose of Standards: To ensure consistency in the quality of homeownership education efforts nationwide, and adopt industry best practices.

In order to best serve clients, organizations providing homeownership education and individual homeownership educators agree to adopt the following:

Core Operating Standards

1. **Competency:** Possess a strong knowledge in the area of homeownership- specifically the homebuying process, budgeting, money management, credit, banking, mortgage financing, down payment assistance, insurance, community involvement, home maintenance, loss mitigation, foreclosure prevention, fair housing, delinquency intervention, refinancing, anti-fraud or anti-predatory lending and relevant local, state and federal laws.

   - **Recommended Benchmark:** Individuals new to the field of Homeownership Education should obtain appropriate orientation and introductory level training during the initial 6 months of employment.

2. **Skills:** Demonstrate an understanding of adult education techniques and training, cultural competency, facilitation skills and training methods, presentation skills, audio/visual techniques, planning and designing trainings, and participatory training techniques.

3. **Training:** As soon as possible, but within 18 months of being hired, homeownership educators will obtain minimum training as a homeownership educator equivalent to no less than 30 hours of facilitated instruction covering topics included in Standards 1 and 2 above, utilizing a variety of methods which could include lecture, interactive, demonstration, on-line and case study.

4. **Certification:** A certification standard is critical to establishing professionalism and value to homeownership education. After completing minimum training, certification will require a homeownership educator to take and pass a comprehensive exam demonstrating at least 80% proficiency. The exam will test the skills and core competency areas identified in Standards 1 and 2 above, as well as the related content and activities identified in Exhibit A and B herein.

   - **Recommended Benchmark:** Certification must be completed as soon as reasonably possible, but no later than 18 months from the start of employment.

5. **Continuing Education:** Complete a minimum of 10 hours of continuing education annually in subjects relative to the core content and delivery of homeownership education.

   - **Recommended Benchmark:** Continuing education requirements for most certification programs will meet or exceed this standard.

6. **Homeownership Program Operations:** Implement effective program operations, including outreach and marketing, partnership building, fundraising, customer service, customer tracking, reporting, program evaluation, and program design.

- **Recommended Benchmark:** These skills can be obtained through training and experience.

7. **National Industry Code of Ethics and Conduct Statement:** Sign and adopt the written National Industry Code of Ethics and Conduct policy that specifically addresses any real and apparent conflicts of interest, guidelines for professional behavior, privacy and confidentiality, payment for services, consultation, referrals, quality assurance and integrity.

Performance Standards

1. **Delivery:** Perform face-to-face group homeownership education to clients, utilizing a variety of interactive techniques.

   - **Recommended Benchmark:** Homeownership education occurs before a purchase contract is signed in pre-purchase education.
   - **Recommended Benchmark:** Content, delivery and format of the training is tailored to meet the needs of the participants.
   - **Recommended Benchmark:** Participants should be provided service in a timely manner, requisite with the service need. At a minimum, upon request participants should receive acknowledgement of inquiry within two business days of initial contact, and delivery of education within a two-week timeframe.
   - **Recommended Benchmark:** Homeownership Educators should use a training manual, and make materials available to attendees.
   - **Recommended Benchmark:** A certificate of completion is provided to customers who successfully complete the training.
   - **Recommended Benchmark:** Customer satisfaction surveys are used to evaluate the effectiveness of the homeownership education.
   - **Recommended Benchmark:** Offer and encourage individual counseling in conjunction with the provision of all group education.
   - **Recommended Benchmark:** A code of ethics is utilized for all volunteer trainers, coupled with an orientation regarding the mission, philosophy and delivery of the training

2. **Curriculum:** Utilize a comprehensive curriculum containing the following minimum core content:[3]

   Pre-Purchase Education
   - Assessing Readiness to Buy a Home
   - Budgeting and Credit

[3] See Detailed list of acceptable content and topics

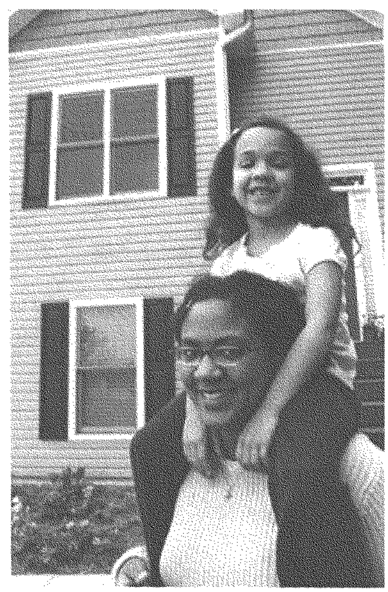
- Financing a Home
- Selecting a Home
- Maintaining a Home and Finances

Post-Purchase Education (when offered)

- Community Involvement
- Budgeting for Homeownership
- Maintaining a Home and Home Improvement
- Financing and Sustaining Homeownership
- Avoiding Delinquency and Foreclosure

- **Recommended Benchmark:** There are a number of excellent consumer curricula that have been developed by various organizations, service providers, state collaboratives, etc, which may meet or exceed the standard for curriculum content. These curricula must contain the above mentioned components.

- **Recommended Benchmark:** Specialty Topics such as financial literacy, reverse mortgage lending, individual development accounts (IDAs), foreclosure prevention may also at times be delivered as group education. Use of nationally developed and utilized curriculum, and/or an equivalent is recommended. Homeownership Educators should secure appropriate training in the appropriate specialty topic.



3. **Expected Education Outcome:** Upon completion of homeownership education, clients will be able to demonstrate an understanding of the following: preparing for homeownership; budgeting and credit management; financing a home; selecting a home; maintaining a home and finances[4]; avoiding delinquency and foreclosure.

    - **Recommended Benchmark:** Optimally, the time allocated for comprehensive, effective delivery of pre-purchase curriculum to achieve a desired expected outcome and cover content adequately is 8 hours of education. In some circumstances (e.g., based

[4]See detailed criteria for core understanding

on pre-assessment of learners' needs) hours may vary, but in no case would less than 4 hours be sufficient.

4. **Recordkeeping:** Collect and maintain specific information from education clients in accordance with all laws and governing organizations (i.e., HUD, Intermediary, etc.).

   - **Recommended Benchmark:** An intake form should be completed and collected with client profile information to include contact information, services sought/provided, household size, ethnicity (optional), household income, date and type of workshop attended, workshop format and length.

   - **Recommended Benchmark:** Aggregate information for group education should be maintained including total number of persons served and other demographic information.

   - **Recommended Benchmark:** Utilize a checklist to ensure files maintained are consistent and meet reporting standards and quality assurance.

   - **Recommended Benchmark:** Files should be maintained in secured file cabinets in order to protect client privacy. Scanned documents or electronic files should maintain the highest level of client security.

   - **Recommended Benchmark:** Files should be maintained for a minimum of three (3) years. Longer file retention requirements may be required if the household has received grant or loan assistance through state or federal subsidy programs. At the time of disposal, files should be shredded.

5. **Reporting:** Utilize an electronic Client Management System (CMS) for collecting and reporting data.

   - **Recommended Benchmark:** An electronic method in place for collecting reporting data may be as basic as an Excel spreadsheet or Access database application that captures needed data fields from each client, but *preferably* should be a software application compliant with HUD's CMS vendor list or equivalent. Visit www.hud.gov HUD's CMS vendor list.

6. **Service Thresholds:** Establish referral networks for individuals and families seeking services that Homeownership Educator does not provide or possess sufficient competency to adequately and effectively deliver.

   - **Recommended Benchmark:** Examples of such services may include: individual/personal counseling services, housing search assistance, legal aid, relocation assistance, etc.

Exhibit A

Pre-Purchase Standard Homeownership Education Content

Key Topics	Client Outcome
Assessing Homeownership Readiness	
Pros and cons of homeownership	Understand the benefits and responsibilities of homeownership
Overview of the home purchase process	Conduct self-assessment of homeownership readiness
Housing affordability	Calculate housing affordability
4 C's of credit	Understand how lenders determine mortgage readiness
Budgeting and Credit	
Importance of goal setting	Set financial goals
Tracking expenses	Develop system to track expenses
Setting up a spending plan	Create a realistic spending plan
Budgeting and saving tips	Identify ways to reduce expenses and increase savings
Importance of good credit	Understand the importance of good credit
Understanding credit and how to protect credit ratings	
Credit bureaus, reports and scores	Order credit reports and credit scores
How to fix credit problems	Improve credit rating
Debt management tips	Reduce debt
Financing a Home	
How a lender decides whether or not to lend	Understand how lenders make loan decisions
Housing affordability and qualification	Calculate housing affordability
Sources for mortgage loans	Understand where to obtain a mortgage loan
Predatory loans and how to avoid them	Avoid high-risk loans
Types of mortgage loans	Choose appropriate loan product and source
Special financing products	Understand resources available to assist with home purchase
Steps in the mortgage loan process	Understand the loan process
Loan application and approval process	
Common lending documents	Assemble documents needed for loan application

Key Topics	Client Outcome
What to do if the loan is denied	Address issue listed as the reason for loan denial
Closing process	Understand the loan closing process
Shopping for a Home	
The homebuying team	Understand the professionals involved in the homebuying process
Real estate professionals	Understand the different types of real estate professionals
Types of homes and ownership	Understand housing and titling options
How to select a home and neighborhood	Determine housing wants versus needs
How to make an offer	Understand the home purchase process
Negotiating tips	
The purchase contract	
Inspections	Understand the importance of a professional home inspection
Escrow and closing process	Understand the escrow and closing process
Maintaining a Home and Finances	
How to maintain and protect a home after moving in	Understand costs associated with homeownership, including taxes, insurance, maintenance, etc.
Home safety and security	Create emergency plan
Energy efficiency	Reduce energy usage
Preventive maintenance	Create plan for routine maintenance
Home repairs and improvements	Understand the difference between repairs and improvements
Working with a contractor	Understand how to work with a contractor
Community involvement	Get involved in the community
Record keeping	Set up a record-keeping systems
Taxes	Understand tax issues associated with homeownership
Insurance	Understand different insurance policies associated with homeownership
What to do if you can't make a payment	Contact lender immediately if there are financial issues
Predatory lending and other financial pitfalls	Avoid high-risk loans

Exhibit B

Post-Purchase Standard Homeownership Education Content

Key Topics	Client Outcome
Budgeting for Homeownership	
Staying financially fit as a new homeowner	Review spending plan and revise with new expenses of mortgage payments, maintenance, reserves, utilities, homeowners association fees and investments
Budgeting	
Maintaining good credit	Understand the importance of maintaining good credit
Home equity: your home as an asset	Calculate home equity, and understand how to manage it effectively
Retirement savings	Understand options and techniques for saving for retirement
Taxes: property and income	Understand tax liabilities and ways to maximize deductions
Insurance: mortgage, homeowners, auto, health and life	Understand different types of insurance and the importance of risk management
Maintaining and Improving Your Home	
Home maintenance and improvements	Develop plans for preventive maintenance, home repairs and replacements and/or home improvements as needed
Home safety	Create emergency plan
Energy conservation	Reduce energy usage to save money
Community Involvement	
Building community	Get involved in the community
Financing and Sustaining Homeownership	
Foreclosure prevention	Contact lender immediately if there are financial issues
Mortgage options: refinancing, home equity loans and home improvement loans	Know your options: refinance, home-equity loans, home improvement loans
Record keeping	Create record-keeping system
Lending abuses	Avoid high-risk loans
Landlord issues	Attend landlord training classes

Exhibit C

National Advisory Council convened by NCHEC[5]

The National Industry Standards were developed by a broad representation of industry stakeholders comprising the National Advisory Council (facilitated by NCHEC). Companies and organizations include:

Bank of America

Chase

Chrysalis Consulting Group, LLC

Citi

Community Development Corporation of Long Island, Inc.

Consumer Credit Counseling Services of San Francisco

Countrywide Financial Corporation

Fannie Mae

The Housing Partnership Network

Federal Reserve Board

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National Council of State Housing Finance Agencies

National Council of La Raza (NCLR)

NeighborWorks® America

NHS of Great Falls

University of North Carolina Chapel Hill

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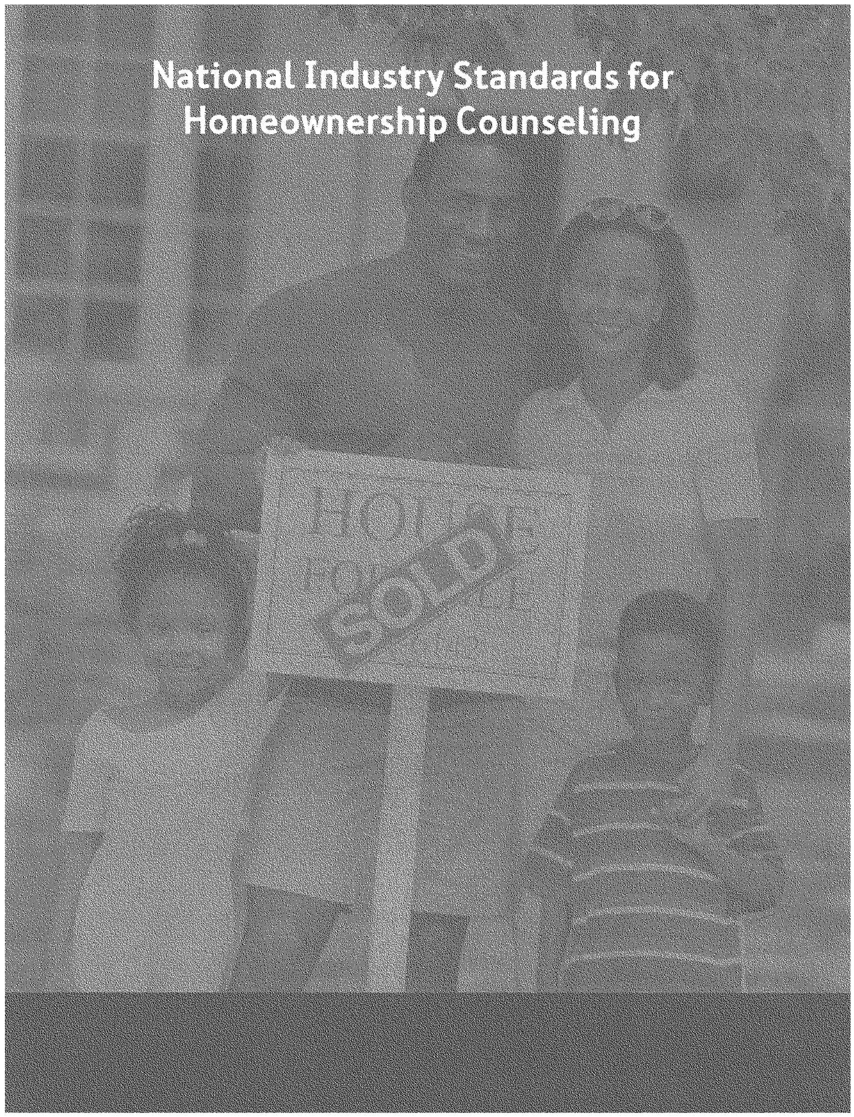
[5]NCHEC is an acronym for the NeighborWorks® Center for Homeownership Education and Counseling


National Industry Standards for
Homeownership Counseling
SOLD

National Industry Standards[1]

The National Industry Standards for Homeownership Education and Counseling allow organizations and homeownership professionals to demonstrate that all clients receive consistent, quality service in homeownership education and counseling. The standards create a level of consistency in the industry and add to the professionalism of homeownership educators and counselors.

As the link between sustainable homeownership and counseling/education becomes increasingly clear, now more than ever the housing industry recognizes the need to ensure high quality education and counseling for households throughout the country. Seizing on these market conditions, in 2005 a National Advisory Council (see Exhibit B for a list of member organizations) collaborated with other industry partners such as homeownership professionals; non-profit executive directors; local, state and national housing counseling organizations; financial institutions, mortgage insurance institutions, GSEs[2] and government entities to develop National Homeownership Industry Standards (including benchmark recommendations) and National Code of Ethics and Conduct for Homeownership Professionals.

Organizations, counselors and educators are encouraged to endorse and adopt the voluntary National Industry Standards and National Industry Code of Ethics and Conduct. These standards are a first step in evolving efforts to professionalize and elevate the visibility of the homeownership education and counseling industry.

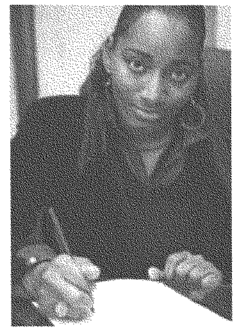
How to Utilize National Industry Standards

Organizations Providing Homeownership Counseling: Organizations providing homeownership counseling are encouraged to endorse and adopt the National Standards for Homeownership Counseling and sign the National Industry Code of Ethics and Conduct. At a minimum, organizations should integrate the recommended benchmarks from the National Industry Standards for Homeownership Counseling into their everyday business operations. Organizations and individual counselors are encouraged to strive to exceed the benchmarks.

Most organizations that currently provide homeownership education and counseling will find their programs meet or exceed the recommended benchmarks for industry standards and can readily adopt the National Industry Standards and National Industry Code of Ethics and Conduct.

For more information on how to demonstrate adoption of the National Industry Standards for Homeownership Counseling and the National Industry Code of Ethics and Conduct, visit www.homeownershipstandards.com.

[1]National Industry Standards for Homeownership Education and Counseling are adopted on a voluntary basis by organizations and practitioners, incrementally over a period of time.
[2]GSE is an acronym for government-sponsored enterprise.



Purpose of Standards: To ensure consistency in the quality of homeownership counseling efforts nationwide and adopt industry best practices.

In order to best serve clients, organizations providing homeownership counseling and individual homeownership counselors agree to adopt the following:

Core Operating Standards

1. **Competency:** Possess a strong knowledge in the area of homeownership- specifically the homebuying process, budgeting, money management, credit, banking, mortgage financing, down payment assistance, insurance, community involvement, home maintenance, loss mitigation, foreclosure prevention, fair housing, delinquency intervention, refinancing, anti-fraud, anti-predatory lending and relevant local, state and federal laws.
   - **Recommended Benchmark:** Individuals new to the field of Homeownership Counseling should obtain appropriate orientation and introductory level training during the initial 6 months of employment.
2. **Skills:** Exhibit professional communication and organization skill set, including listening skills, customer service, cultural competency and time management. Homeownership Counselors must demonstrate the skills necessary to obtain, review and analyze a tri-merged credit report, calculate income and debt and perform an affordability analysis. A full command of calculations for mortgage financing, down payment assistance and subsidy programs is required.
3. **Training:** As soon as possible but within 18 months of being hired, homeownership counselors will obtain minimum training as a homeownership counselor equivalent to and no less than 30 hours of facilitated instruction covering topics included in Standards 1 and 2 above, utilizing a variety of methods which could include lecture, interactive, demonstration, on-line and case study.
   - **Recommended Benchmark:** Homeownership counselors providing specialty counseling such as reverse mortgage counseling, foreclosure prevention, and delinquency counseling should seek the appropriate training to provide these services.
4. **Certification:** A certification standard is critical to establishing the professionalism and value of homeownership counseling. After completing minimum training, certification will require a homeownership counselor to take and pass a comprehensive exam demonstrating at least 80% proficiency. The exam will test skills and core competency areas included in Standards 1 and 2 above, as well as the related content and activities identified in Exhibit A herein.
   - **Recommended Benchmark:** Certification must be completed as soon as reasonably possible, but no later than 18 months from the start of employment.
5. **Continuing Education:** Complete a minimum of 10 hours of continuing education annually in subjects relative to the core content and delivery of homeownership counseling.

- **Recommended Benchmark:** Continuing education requirements for most certification programs will meet or exceed this standard.

6. **Homeownership Counseling Operations:** Implement effective program operations of homeownership counseling techniques, including outreach and marketing, partnership building, fundraising, customer service, customer tracking, reporting, program evaluation, and program design. Counselors should have a working knowledge of each of these subject areas.

   - **Recommended Benchmark:** These skills can be obtained through training and experience.

7. **National Industry Code of Ethics and Conduct:** Sign and adopt the written National Industry Code of Ethics and Conduct policy that specifically addresses any real and apparent conflicts of interest, guidelines for professional behavior, privacy and confidentiality, payment for services, consultation, referrals, quality assurance and integrity.

Performance Standards

1. **Delivery:** Perform individual, personalized homeownership counseling to clients.

   - **Recommended Benchmark:** Pre-purchase counseling occurs before a purchase contract is signed.
   - **Recommended Benchmark:** Content, delivery and format of the counseling is tailored to meet the needs of the client.
   - **Recommended Benchmark:** Clients should be consulted in a timely manner, requisite with the service need. At a minimum, upon request clients should receive acknowledgement of inquiry within 2 business days of initial contact, with the intake appointment within a one-week timeframe.
   - **Recommended Benchmark:** Homeownership Counselors must complete a formal intake, needs assessment and develop a written Action Plan.
   - **Recommended Benchmark:** Active, open client files should be closely monitored, with timely follow-up in accordance with the stated Action Plan. When no contact from the client has taken place for 6 consecutive months, the file may be classified as inactive.
   - **Recommended Benchmark:** Where appropriate, Homeownership Counselors should review and analyze client's credit report.
   - **Recommended Benchmark:** Customer satisfaction surveys are used to evaluate the effectiveness of the counseling.
   - **Recommended Benchmark:** Offer and encourage homeownership education in conjunction with the homeownership counseling services.

2. **Expected Counseling Outcome:** Upon completion of homeownership counseling, clients will be able to demonstrate an understanding of the following: preparing for homeownership; budgeting and credit management; financing a home; selecting a home; maintaining a home and finances; sustaining homeownership; and avoid delinquency and foreclosure.

   - **Recommended Benchmark:** Comprehensive, effective delivery should be determined based upon the individual need of the client to reach the desired outcome. The minimum standard for delivery of individual counseling should be at least one session of at least 30-60 minutes.

3. **Recordkeeping:** Collect and maintain specific information from clients in accordance with all laws and governing organizations (i.e., HUD, Intermediary, etc.).

   - **Recommended Benchmark:** An intake form should be completed and collected with client profile information to include contact information, services sought/provided, household size, ethnicity (optional), household income, date and type of workshop attended, workshop format and length.

   - **Recommended Benchmark:** Aggregate information for clients should be maintained including total number of persons served and other demographic information.

   - **Recommended Benchmark:** Utilize a checklist to ensure files maintained are consistent and meet reporting standards and quality assurance.

   - **Recommended Benchmark:** Files should be maintained in secured file cabinets in order to protect client privacy. Scanned documents or electronic files should maintain the highest level of client security.

   - **Recommended Benchmark:** Files should be maintained for a minimum of three (3) years. Longer file retention requirements may be required if the household has received grant or loan assistance through state or federal subsidy programs. At the time of disposal, files should be shredded.

4. **Reporting:** Utilize an electronic Client Management System (CMS) for collecting and reporting data.

   - **Recommended Benchmark:** An electronic method in place for collecting reporting data may be as basic as an Excel spreadsheet or Access database application that captures needed data fields from each client, but *preferably* should be a software application compliant with HUD's CMS vendor list or equivalent. Visit www.hud.gov HUD's CMS vendor list.

5. **Service Thresholds:** Establish referral networks for individuals and families seeking services that Homeownership Counselor does not provide or possess sufficient competency to adequately and effectively deliver.

   - **Recommended Benchmark:** Examples of such services may include: rental housing assistance, housing search assistance, legal aid, relocation assistance, etc.

Exhibit A

Minimum Standard Activities for Homeownership Counseling

1. Intake – gather baseline information from client
2. Conduct accurate needs assessment
3. Document the household income and expenses
4. Determine household debt level
5. Review client's credit report(s)
6. Identify credit challenges
7. Determine and document household savings
8. Develop a household budget
9. Analyze budget and recommend modification
10. Conduct various calculations including affordability based on income and debt
11. Develop a written action plan
12. Provide client follow up
13. Make referrals for additional services needed by client
14. Provide client information on delinquency/foreclosure services or information on a referral for these services

Note: *Specialty counseling services such as reverse mortgage counseling, foreclosure prevention, delinquency counseling should only be provided by counselors with the proper training and certification.*

Exhibit B

National Advisory Council convened by NCHEC[3]

The National Industry Standards were developed by a broad representation of industry stakeholders comprising the National Advisory Council (facilitated by NCHEC). Companies and organizations include:

Bank of America

Chase

Chrysalis Consulting Group, LLC

Citi

Community Development Corporation of Long Island, Inc.

Consumer Credit Counseling Services of San Francisco

Countrywide Financial Corporation

Fannie Mae

The Housing Partnership Network

Federal Reserve Board

Freddie Mac

Minnesota Housing

Mortgage and Credit Center

Mortgage Guaranty Insurance Corporation (MGIC)

NAREB-National Investment Division (NID)

National Association of Realtors®

National Council of State Housing Finance Agencies

National Council of La Raza (NCLR)

NeighborWorks® America

NHS of Great Falls

University of North Carolina Chapel Hill

U.S. Department of Housing and Urban Development

Wells Fargo

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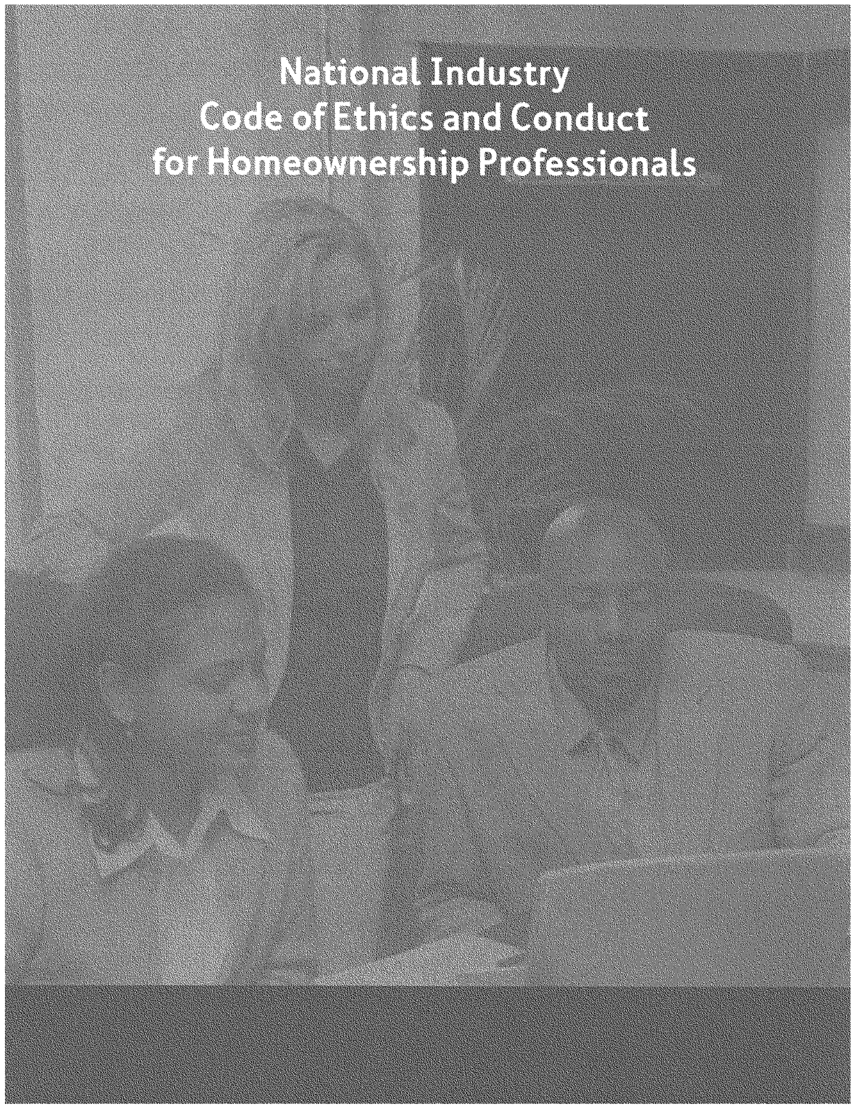
[3] NCHEC is an acronym for the NeighborWorks® Center for Homeownership Education and Counseling


National Industry
Code of Ethics and Conduct
for Homeownership Professionals

National Industry Code of Ethics and Conduct for Homeownership Professionals[1]

The National Industry Code of Ethics and Conduct for Homeownership Professionals[2] is a voluntary, self-governing standard for professional performance/conduct for homeownership counselors and educators that provide homeownership education and counseling services to consumers.

A National Industry Code of Ethics and Conduct for Homeownership Professionals offers a set of values and principles to guide conduct and decision-making in the homeownership education and counseling field. Homeownership professionals who adhere to the National Industry Code of Ethics and Conduct agree to provide quality education and counseling to clients.

How to Utilize the National Industry Code of Ethics and Conduct:

Counselors and Educators: The National Industry Code of Ethics and Conduct should be adopted by counselors and educators and adhered to in their everyday business operations. For more information on how to demonstrate adoption of these documents, visit www.homeownershipstandards.com.

Organizations: Organizations providing homeownership education and/or counseling services are encouraged to adopt these National Industry Code of Ethics and Conduct and ensure compliance with these ethics by their counselors and educators.

1. **Commitment to Clients**

   a. The primary responsibility of homeownership educators and counselors is to provide high quality education and counseling services to prospective and existing homeowners.

   b. Homeownership educators and counselors will act on behalf of a client and observe his/her best interest.

2. **Client Decision-Making**

   a. Homeownership educators/counselors will provide necessary tools, resources and information to assist their clients in making decisions about finances, home buying or homeownership based on the client's needs and preferences.

   b. In instances when clients experience literacy or language challenges, homeownership educators/counselors will take steps to ensure clients' comprehension. This shall include arranging for a qualified interpreter or translator or referring the client to a qualified language educator/counselor.

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[1] The National Industry Code of Ethics and Conduct were developed by a collaborative group of industry partners.
[2] Homeownership Professionals includes both homeownership educators and counselors.

3. **Competence**

   a. Homeownership educators/counselors will provide services only within the boundaries of their education, training, certification or other relevant professional experience. Referrals will be provided to clients when essential services are beyond the scope of the individual or agency to provide.

   b. Homeownership educators/ counselors shall be culturally competent in their service area and sensitive to cultural differences and needs.

4. **Conflicts of Interest**

   a. Homeownership educators/ counselors will avoid actual and the appearance of conflicts of interest. They will inform clients when a real or potential conflict of interest arises and take all necessary steps to resolve the issue in a manner that makes the clients' interests primary and protects clients' interests. In some cases, protecting clients' interests may require termination of the professional relationship with proper referral of the client.

   b. Homeownership educators/counselors will not take unfair advantage of any professional relationship or exploit others to further their personal, religious, political, or business interests.

   c. Any potential conflicts of interest (such as a counseling agency providing low-cost loans), will be disclosed to clients in a written disclosure document.

5. **Privacy and Confidentiality**

   a. Homeownership educators/counselors will respect clients' right to privacy. Private information will not be requested from clients unless it is critical to providing services. Once private information is shared, privacy laws apply as well as client confidentiality.

   b. Homeownership educators/counselors will disclose confidential information only as specified by a valid written consent of client.

   c. Homeownership educators/counselors will not discuss confidential information in any setting unless privacy can be ensured. Counselors and educators will abide by privacy laws and keep information confidential and protected.

   d. Homeownership educators/counselors will not disclose clients' information, including their identity when responding to requests from members of the media without the client's express consent.

   e. Homeownership educators/counselors will protect the confidentiality of clients' written and electronic records and other sensitive information. Clients' records shall be stored in a secure location and not made available to others who are not authorized to have access.

f. Homeownership educators/counselors will take precautions to ensure and maintain the confidentiality of information transmitted to other parties through the use of computers, electronic mail, facsimile machines, telephones and telephone answering machines, and other electronic or computer technology. Disclosure of identifying information will be avoided unless specifically permitted by client.

g. Homeownership educators/counselors will dispose of clients' records in a manner that protects clients' confidentiality and is consistent with state statutes governing records and social work licensure.

h. Homeownership educators and counselors will be familiar with relevant laws and regulations with regard to local, regional, national privacy and confidentiality.

6. **Professional Behaviors**

a. Homeownership educators/counselors will not practice, condone, facilitate, or collaborate with any form of discrimination on the basis of race, ethnicity, national origin, sex, sexual orientation, age, marital status, political belief, religion, or mental or physical disability.

b. Homeownership educators/counselors will not use derogatory language in their written or verbal communications to or about clients. Accurate and respectful language will be used in all communications to and about clients.

c. Homeownership educators/ counselors will not participate in, condone, or be associated with dishonesty, fraud, or deception.

d. Homeownership educators/ counselors will not permit their private conduct to interfere with their ability to fulfill their professional responsibilities.

7. **Payment for Services**

a. When setting fees, homeownership educators/ counselors will ensure that the fees are fair, reasonable, and commensurate with the services performed. Clients will be informed of any applicable fees prior to the delivery of any services.

b. Homeownership educators/ counselors will not solicit a private fee or other personal remuneration for providing services to clients.

8. **Discontinuation of Services**

a. Homeownership educators/ counselors will close files and discontinue services to clients when such services are no longer required or no longer serve the clients' needs or interests.

9. **Consultation**

   a. Homeownership educators/ counselors will seek the advice and counsel of more experienced colleagues whenever such consultation is in the best interests of clients. Consultation will only be sought from colleagues who have demonstrated knowledge, expertise, and competence related to the subject of the consultation.

   b. When consulting with colleagues about clients, homeownership educators/ counselors will disclose the least amount of information necessary to achieve the purposes of the consultation.

   c. Client information will only be shared with other colleagues with the written consent of the client.

10. **Referrals**

   a. Homeownership educators/ counselors will limit services to those within their training and expertise and refrain from giving legal, tax, accounting advice unless licensed to do so. Non-homeownership issues should be referred to other appropriate agencies to serve clients fully.

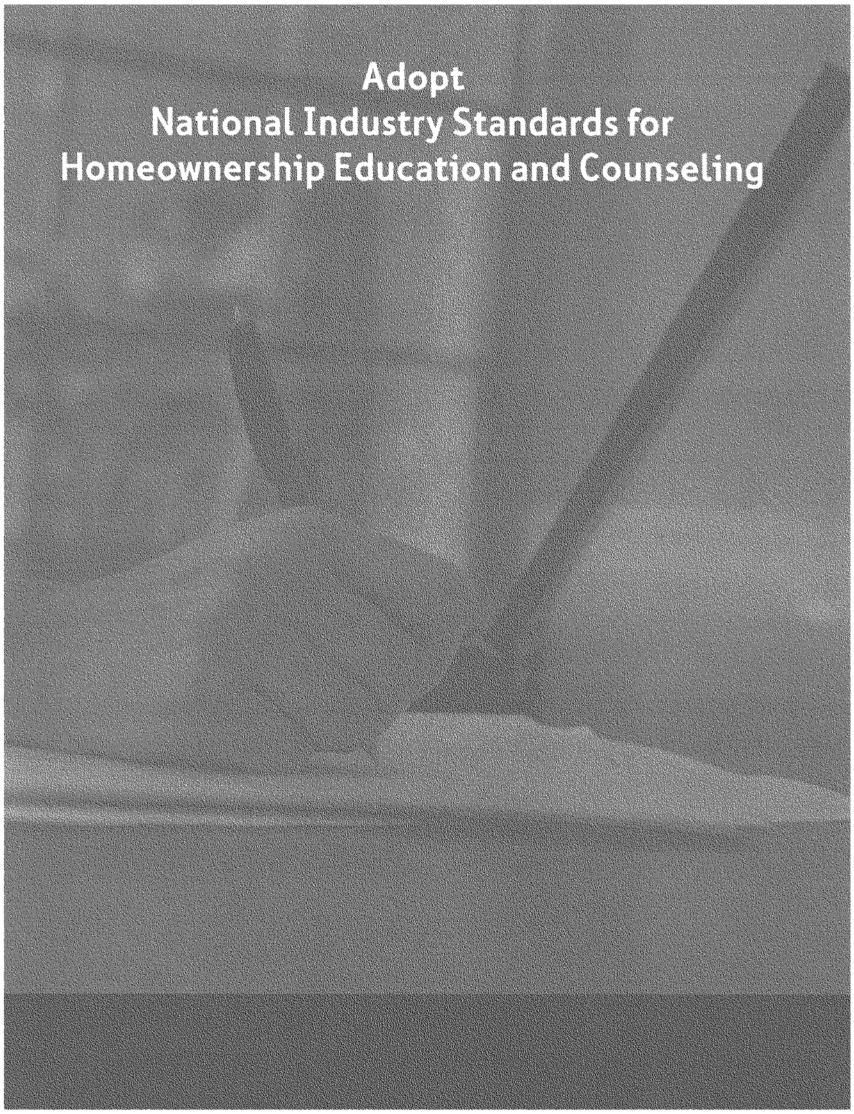
   b. Homeownership educators/ counselors shall not give payment or receive payment from an outside source for a referral unless professional services of comparable value have been provided.

11. **Integrity of the Homeownership Education and Counseling Profession**

   a. Homeownership educators/ counselors will work toward the maintenance and promotion of high standards of practice for the industry.

   b. Homeownership educators/ counselors will uphold and advance the values, ethics, knowledge, and mission of the profession. They will protect, enhance, and improve the integrity of the profession through service development, partnerships and active participation in the industry.

   c. Homeownership educators/ counselors will contribute time and professional expertise to activities that promote respect for the value, integrity, and competence of their profession.


Adopt
National Industry Standards for
Homeownership Education and Counseling

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LEARN HOW TO ADOPT
National Industry Standards for Homeownership Education and Counseling

Unifying the industry on the issue of education and counseling standards is the first step to achieving that goal on a national level. An organization can make the commitment to incorporate the National Industry Standards in their day-to-day business practices to help promote an accepted level of performance for homeownership counseling and training nationwide.

Your organization can adopt the standards by following these simple steps:

1. Go online to **www.homeownershipstandards.com**. Download and read through the **National Industry Standards Guidelines and Code of Ethics and Conduct** (each staff member should also read and complete the Code of Ethics and Conduct).
2. Select the **Sign Up** button from the homepage (the executive director or highest ranking decision maker for your organization must complete the sign-up form).
3. Choose the **Adopt Standards** link.
4. Read and check the **authorization** box that you are the decision-maker for your organization.
5. Complete the **Adoption Verification Page** (be sure to include complete training and certification information for each of your counseling staff).
6. **Submit** copies of your staff's training and certification details to:

National Industry Standards
c/o NeighborWorks® America
1325 G Street, NW, Suite 800
Washington, D.C. 20005

Or, fax to 202-376-7276, Attn. National Industry Standards.

Upon review and verification of your submittal, you will receive notification of your adoption status and your organization's name will be listed as an adopter on the National Industry Standards Website.

If you have questions about the National Industry Standards, **call 866-472-9477.**

National Industry Standards for Homeownership Education and Counseling

Code of Ethics and Conduct

By signing below, I acknowledge receipt of the National Industry Code of Ethics and Conduct for Homeownership Professionals and agree to adopt and adhere to the guidelines as outlined.

Signature: ______________________________

Print Name: ______________________________

Company: ______________________________

Address: ______________________________

____

Telephone: ______________________________

Email: ______________________________

Web Address: ______________________________

Date: ______________________________

Each staff member providing homeownership services must complete and sign the Code of Ethics and Conduct agreement. (Photocopy this form as needed.)

Return completed forms to:
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[redacted]

Advisory Council for the National Homeownership Industry Standards for Homeownership Education and Counseling

Bank of America
Chase
Chrysalis Consulting Group, LLC
Citi
Community Development Corporation of Long Island, Inc.
Consumer Credit Counseling Services of San Francisco
Countrywide Financial Corporation
Fannie Mae
The Housing Partnership Network
Federal Reserve Board
Freddie Mac
Minnesota Housing
Mortgage and Credit Center
Mortgage Guaranty Insurance Corporation (MGIC)
NAREB-National Investment Division (NID)
National Association of Realtors®
National Council of State Housing Finance Agencies
National Council of La Raza (NCLR)
NeighborWorks® America
NHS of Great Falls
University of North Carolina Chapel Hill
U.S. Department of Housing and Urban Development
Wells Fargo

List of all the Intermediaries and Organizations who provided input, focus groups etc.

The Advisory Council for the National Industry Standards for Homeownership Education and Counseling was convened and staffed by the NeighborWorks® Center for Homeownership Education and Counseling (NCHEC).

Mike Haley, Minnesota Housing
Chairman

Cora Fulmore, Mortgage & Credit Center
Vice-Chair

Jayna Bower, NeighborWorks® America
Director, NCHEC

National Industry Standards for Homeownership Education and Counseling

1325 G Street, Suite 800
Washington, DC 20005
www.homeownershipstandards.com
866-472-9477

DELAWARE

I am Executive Director of the nonprofit 501(c) (3) Delaware Financial Literacy Institute, the home of the Delaware Money School. The Money School is a unique program providing free financial education across the state. With a volunteer faculty of over 125 professionals, more than 600 classes and events ranging from basic budgeting, credit repair, business startup, and home ownership were offered to a diverse community of learners in 2007.

In my position, I have followed what has been called "exotic and toxic" (Consumer Federation of America) mortgage dilemmas and tragedies that have been unfolding. I appreciate this opportunity to share my experiences and recommendations and those of my partners in Delaware.

Most of us grew up believing home ownership is the American Dream. If this was not our belief, friends and family encouraged us, pushed us to dream of owning our own homes one day. We'd hear, "Stop renting; you're throwing your money away! Buy a house, be the king of your own castle, play loud music if you want, paint your walls any color you wish; it's an investment in your future and the future of your family."

For many, that dream could become – and recently did become - a nightmare as buyers bought as fast as builders could build and sub-prime, politely called "non-traditional" products, took center stage.

It's strange that we have to study to get a driver's license and a real estate license, and now even to declare bankruptcy, but many people do little more than scan the internet, the multiple listings, or drive around to look for their first home.

No wonder the sub-prime market blossomed: for those who never thought it possible to own a home, it was hard to resist the allure of huge billboards, commercials, and ads that boasted NO MONEY DOWN! LET US PUT YOU IN THE HOME OF YOUR DREAMS TODAY! In our culture of instant gratification, many were tempted by these adjustable rate mortgages and didn't think or didn't know to worry about the balloon payment and penalties down the road and their ability – or inability - to pay.

With low or zero down payments and lax document and credit checks, many jumped at this chance to become instant home owners. Often these first time homebuyers were led to believe that owning would be cheaper than renting - sometimes true, sometimes not – buyers did not always check the fine print or their capacity to pay mortgages and living expenses before jumping on the inviting mortgage terms. Little thought was given to costs such as taxes, trash removal, maintenance, upkeep, utilities, the furniture to fill the dream house, and the inevitable emergencies –what seemed like a monthly payment they could just barely afford spiraled out of control.

Often new homebuyers lack an understanding of the traditional and the sub-prime markets; they do not have a grasp of the fundamental concepts to deal with money. Zero or low down payment options provide opportunities for more consumers to get into the housing market, but pose risks due to the higher monthly payments. The complexity and variety of mortgage choices require consumers to take an active, informed role when evaluating products. Without training or education, making personal financial decisions can be a confusing, frustrating, and even dangerous road to maneuver.

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As volunteers for the Money School, many housing agencies offer introductory classes covering the basics of financial education, but the potential buyer must avail himself of the opportunity for education and the counseling that comes with it. Some potential buyers decide it's not worth the \$50-\$200 fee for financial education and one-on-one counseling. It is difficult to accept that such a small amount in relation to the cost of the biggest purchase in most people's lives is enough to turn away potential students because not only do these buyers forfeit the counseling, they lose something equally valuable: the opportunity to have a knowledgeable and unbiased person answer their questions and help them review products and understand the fine print and lead them through the complicated process of buying a home. They do not have a counselor to explain that though they were pre-qualified for say, a \$400,000 mortgage, they would not be able to maintain the payments on a home priced that high, a counselor who might say, wait 4-6 months and you will be able to qualify for a more traditional mortgage and a home you can more realistically afford.

It's ironic that laws mandate those declaring bankruptcy complete basic financial education but not all first time home buyers are required to participate in financial education.
Required financial education for all first time homebuyers, not just for those with special products, should include:

- Budgeting – what it means to *live within your means*; the concept of spending less than you earn, a clear understanding of one's finances, income and expenses.
- Next goal setting. Where do you want to be 1-2-3-5 or 10 years down the road?
- The concept of paying yourself first – learning to put money aside before you spend, money for education, the future, money for opportunities and money for emergencies such as a leaking hot water heater.
- The wise use of credit, building a positive credit history by repairing poor credit and improving credit scores, credit and debt management.
- Banking Basics – shopping for the account that suits your needs and your pocketbook.
- Being a responsible renter – and how it affects home buying.
- Rational decision making – looking at the costs and benefits of financial choices.
- Loan products and predatory lending practices.
- And, last but not least, learning to identify the people in the community who can help with financial decisions.

Housing counselors in Delaware, many of them instructors in the Delaware Money School, teach these basics, often called "Financial Fitness." Most also offer a seminar with the major players: a mortgage broker, a realtor, an attorney, a home inspector, and an insurance agent…and the opportunity to ask questions, to learn about PMI and points and traditional and nontraditional mortgage products. Targeted and personal financial education itself often comes during the one on one counseling. With concerns for the Privacy Act and buyers with varying levels of knowledge, education is often best provided on an individual basis. With the majority of Delaware's housing counselors certified by Delaware Federation of Housing Counselors, first time home buyers who put in the time and effort will learn what to expect during the process and what questions to ask. They will learn about prepayment penalties and what to look for on the pre-purchase HUD 1 report; they will learn about PMI and points. They will have someone help them review and evaluate mortgage documents. They will have someone to call with questions.

There are books on the market such as *Home-buying for Dummies* and *The Idiot's Guide to Buying a First Home*. There are even internet sites such as getdownpayment.com where a home buyer can learn the basics of home ownership – if he or she is willing to do the work.

Whatever the means, potential homebuyers must have a grasp of basic financial concepts and be able to grasp the meaning of mortgage terms and understand the necessity to read and understand the mortgage documents and requirements…and to ask questions when they do not understand.

Delaware Bank Commissioner Robert Glen and his Deputy Gerry Kelly have worked tirelessly on preventing foreclosures and building awareness of predatory practices.

From their experiences and from those we have had with Delaware Money School students, we find that homebuyers who have had basic financial education, counseling, and access to counselors are significantly less likely to go into foreclosure because they learn to make wiser mortgage choices.

The Delaware Money School, with funding from the Citi Foundation, created a unique ongoing financial education program called *From Purses to Portfolios*, targeting low to moderate income women and providing women not only with financial knowledge but also a cadre of professionals a phone call away willing to provide free and knowledgeable financial counseling to prepare for home ownership.

Discover Bank has approached the Money School to develop a housing program for Kent County which has the highest foreclosure rate in Delaware. Discover, Bank of America, and State Farm provide funding for a financial education summit for high school juniors.

JPMorgan Chase has provided funding for the Money School to teach asset building and financial concepts to at risk youth.

One strategy developed by PNC Bank, Interfaith Housing of Delaware, and NeighborWorks Home Ownership Center is worth mentioning here. The PNC Homebuyers Club offers an 11 week series of meetings with dinner and childcare provided. The series provides education on the home buying process, financial management, credit repair, spending plans that include saving, and the opportunity to compare lenders and mortgage products and services. The duration of the Club helps buyers become acquainted with counselors, and repair their credit, if necessary, so they can be directed toward more conventional type mortgages. The counselor and homebuyer actually looking at specific mortgage products and what best suits the buyers' needs; there is time to judge the merits of waiting to qualify for a mortgage with better terms, terms the buyer is more likely able to meet.

Some housing programs include a post purchase class covering basic home maintenance guidelines as well as learning the perils of losing the equity in the home through misuse of home equity and second mortgages. Few new homebuyers take the time to pursue post purchase education since they now have their homes. But it is critical that homeowners be aware of tips to avoid bleeding out the equity in their homes through overuse and misuse of second mortgage and home equity loans. Counselors lament that once the homebuyer is in the home, there is little interest in this post purchase education.

To combine what we know works in a cohesive strategy to protect homeownership, my colleagues and I have the following basic recommendations:

- *Low to moderate income first time home buyers should be required to complete basic financial education* including the pros and cons of different types of mortgages and predatory lending as well as one on one counseling with a certified counselor.
- *The paperwork associated with home purchase should be simplified* and made more understandable for the average homebuyer, more on the line of the HUD1 form which should be available earlier in the mortgage process.
- *Home buying counselors must be certified* and required to maintain and update certification.

- Some type of incentive should be offered for *post-purchase education*, perhaps a tax credit as we give for mortgage payments and home energy improvements. We must give homebuyers the tools to hold on to their homes, the American Dream.

I would like to thank Senator Carper and the Senate Committee on Banking, Housing, and Urban Affairs for this opportunity to share my thoughts.