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BEFORE THE
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HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

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Good morning, Chairman Ney, Vice Chairman Green, Ranking Member Waters, and distinguished Members of the Subcommittee. Thank you for the opportunity to testify regarding HUD's Housing Counseling Program.

The Benefits of Housing Counseling

Housing Counseling plays a key role in support of the Administration's goal to increase homeownership and close the ownership gap between minority and non-minority households. The President's *Blueprint for the American Dream Partnership* establishes a minority homeownership goal of 5.5 million additional minority homeowners by the end of the decade and specifically recommends educating more people regarding the home buying process to help achieve this goal. Approximately half of HUD's housing counseling funds support pre-purchase counseling and homebuyer education. Based on our experience in recent years, we project that the FY2003 funds will help about 60,000 families become homeowners this year. Moreover, an additional 140,000 families will continue to work with their counselors to become mortgage-ready during the following year. These 200,000 families represent approximately 2/3 of the families who will receive one-on-one counseling from agencies supported by HUD grant funds. Of the remaining families who receive homebuyer counseling, a portion will determine that they are simply not in a position to become homeowners. We believe that this decision is equally as important as the decision to buy a home. These educated consumers are making a wise decision about their financial capacity to sustain homeownership. In so doing, these families are avoiding subprime, or even predatory, loan products and are putting themselves in a better position to achieve homeownership in the future.

The counseling program also helps to ensure that these new homebuyers remain in their homes. Approximately 20 percent of the housing counseling grant funds support the delivery of post-purchase counseling to help families pay their bills on time, perform basic home maintenance, and make their mortgage payments. Again, based on recent experience, the FY2003 funds will help about 135,000 families to stay in their homes, thanks to post-purchase counseling. I have attached a table to my testimony, which disaggregates our housing counseling expenditures by type of counseling.

Housing counseling also supports the Department's efforts to combat predatory lending, another key Presidential priority. We believe that housing counseling represents one of the best ways to prevent predatory lending. Educated consumers are less likely to accept excessively high fees or charges or unreasonable loan terms.

Recognizing the importance of housing counseling in the homebuying process, the Administration requested and Congress increased funding for the program from \$20 million in FY2001 to \$40 million in FY2004. The Administration has requested \$45 million for FY05, reflecting the Administration's continued commitment to expanding homeownership opportunities in this country.

The Housing Counseling Program supports FHA's and also numerous other programs throughout the Department. The impact on the achievement of HUD's mission is far-reaching. For example, housing counseling is a requirement for the Homeownership Voucher Program and for FHA's Home Equity Conversion Mortgage (HECM) Program for seniors. HUD's Office of Community Planning and Development estimates that 90% of recipients of down payment assistance through the HOME program receive housing counseling, which helps them more effectively utilize those resources. Similarly, many recipients of self-help housing assistance through HUD's SHOP program receive housing counseling.

The Housing Counseling Program accounts for by far the largest share of HUD's specific funding for counseling. Only two programs within HUD exclusively fund counseling-related activities. The Fair Housing Initiatives Program devoted \$3.8 million in FY 2004 for education and outreach grants to nonprofits and the Resident Opportunities for Self-Sufficiency program offers grants for life-skills training, including financial literacy. In addition, funds from the HOME, CDBG, HOPE VI, Self-Help Homeownership (SHOP), and Special Needs Assistance grants for the homeless may be used to pay for counseling services. However, the allocation for funds for counseling is at the discretion of the grantees

Program Description

The Housing Counseling Program supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. The primary objectives of the program are to expand homeownership opportunities and improve access to affordable housing. Counselors provide guidance and advice to help families and individuals improve their housing conditions and meet the responsibilities of tenancy and homeownership. Counselors also help borrowers avoid predatory lending practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and foreclosure.

Agencies funded through this program may also provide Home Equity Conversion Mortgage (HECM) counseling to elderly homeowners who are looking to convert equity in their homes into income that can be used to pay for home improvements, medical costs, living expenses, or other expenses.

To participate in the program, an organization must first be approved by HUD as a housing counseling agency. Approval entails meeting various requirements relating to experience and capacity, including nonprofit status, a minimum of one year of housing counseling experience in the target community, and sufficient resources to implement a housing counseling plan. HUD maintains a list of HUD-approved housing counseling agencies so that individuals and families in need of assistance can easily access the nearest HUD-approved housing counseling agency, via HUD's website or automated 1-800 hotline.

Currently, there are 1682 HUD-approved housing counseling agencies, including: 632 Local Housing Counseling Agencies (LHCAs) with 588 branch offices; and 462 affiliates and branches of national and regional intermediaries. In addition, 16 State Housing Finance Agencies (HFAs) provide counseling services with HUD housing counseling grant funds.

National and regional intermediaries provide and manage sub-grants to networks of affiliated local housing counseling agencies, to which they also provide training and technical assistance. HUD values national and regional intermediary participation in the program because each intermediary supports a network of local agencies, providing ongoing training and uniform quality control. Many of the intermediaries and their affiliates provide multiple housing services or effectively partner with other industry organizations to help their clients access affordable home purchase programs, quality lending products, or down payment and closing cost assistance.

As a result of the significant increase in programmatic appropriations in FY 2003, HUD approved five new national intermediaries, including Mission of Peace Housing Counseling Agency, HomeFree USA, Community Housing Services, Inc., Structured Employment Economic Development Corp. (Seedco) and the American Association of Retired Persons (AARP). Both Mission of Peace and HomeFree USA are faith-based organizations.

The Funding Cycle

HUD issues a yearly Notice of Funding Availability (NOFA), a competition for housing counseling grants, for which only HUD-approved housing counseling agencies can apply. In FY 2003, nearly \$38 million was awarded in 443 grants to over 350 groups nationally. Over \$54 million was requested. The average award size for local housing counseling agencies was \$36,000.

The Housing Counseling NOFA is typically published in early spring as part of HUD's consolidated Super NOFA. Applications are due in early summer, and award announcements are made at the end of the fiscal year. Agencies funded through the FY 2003 Housing Counseling NOFA are currently expending those grant funds. That is why the most recent program results data correspond to the FY 2002 appropriation.

FY 2003 Program Data

As the table accompanying my testimony shows, HUD counseling funds served over 625,000 families in FY2003, with funds appropriated in FY2002. Over 80 percent received counseling to help them either buy a home or keep their home. Fifty-three percent of clients for whom income level was reported, had incomes at or below 50 percent of the area median income, and 95 percent of clients reportedly earned less than the median income in their area. Among this group of low- and moderate-income households, over 54,000 achieved their goal and were able to purchase a home. Counseling agencies reported that another 33,000 were on track to be mortgage-ready

within ninety days. HUD's counseling funds also assisted over 115,000 families to maintain, or locate and secure rental housing, and thus contributed to HUD's mission to provide decent, affordable housing for all Americans.

Predatory Lending

The Department believes that consumer information and education are among the most effective tools available to reduce predatory lending. An informed borrower is better able to determine the loan product that best suits his or her individual situation among competing products. Counselors also help borrowers avoid predatory practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and eventually foreclosure.

The Housing Counseling Program supports the provision of pre- and post-purchase counseling, and consumer education, activities that counter predatory lending by providing potential homebuyers and homeowners with the information they need to make smart decisions. Specifically, \$2.7 million in Housing Counseling Grants was set-aside in FY 2003 for counseling and education activities targeting predatory lending. This same level of commitment is anticipated for FY 2004.

Program Management and Quality Control

HUD is investing substantial money, time and effort to continually improve the program and the Department's ability to assure that desired outcomes are actually achieved. Those efforts include regular monitoring of program participants, counselor training for HUD-approved agencies, improved information management, and a new/proposed Regulation to codify program requirements derived from the program legislation.

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

For the past three years HUD has given the AARP Foundation significant funding to develop training and quality control measures for Congressionally mandated counseling related to Home Equity Conversion Mortgages (HECM). The money has supported development of a network of specially trained HECM counselors, who are employees of local HUD-approved, nonprofit agencies. HECM Counselors qualify to join the project's counseling network by scoring well on a national reverse mortgage counseling exam developed and administered by the AARP Foundation project, which was developed with HUD support. This year HUD funding will enable the project to add more counselors and pay for upgrading the project's online reverse mortgage calculators,

developing a formal counseling quality assurance program, and strengthening the project's client screening and appointment scheduling systems.

Based in part on HUD's successful partnership with the AARP Foundation, HUD will soon publish an \$8 million Housing Counseling Training Notice Of Funding Availability (NOFA) to train counselors, and produce training and educational materials, on a broad array of housing counseling topics. Tuition and travel assistance for counselors working for community-based groups will be allowable costs under the grant. The goal of this new funding is to increase the knowledge and skills of all counselors who are part of the HUD-approved network of housing counseling agencies.

The Housing Counseling Program is in the process of procuring an internet-based Client Management software system that is designed to improve and facilitate analysis of a client's unique financial situation and readiness for home purchase; provide a counselor with quick access to information on a variety of mortgage products, down payment and closing cost assistance; simplify and improve the collection of program-related activity data and its submission to HUD, including annual and quarterly reports; and encourage partnerships among counseling agencies and industry groups.

A draft Housing Counseling Regulation, the first-ever set of regulations for the housing counseling program, is making its way through HUD's clearance process. The new Regulation will clarify and codify the policies governing the program.

Conclusion

I hope that this overview of HUD's Housing Counseling Program clearly demonstrates the Department's commitment to the program and to the delivery of high quality counseling services across the nation. I believe that our efforts to expand and improve the housing counseling program over the last several years represent the very first steps in proving the success of this program. Already, the program data shows that more families are receiving counseling services than ever before; more families are purchasing or keeping their homes; and more families are finding the help they need to secure decent and affordable rental housing.

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

Actual Clients Served with FY2002 Funding*
During FY2003

	Counseling Clients Covered by HUD Grants	*Counseling Clients served by all HUD-approved Agencies
Pre-purchase homebuyer counseling	153,563	257,843
Foreclosure prevention counseling	71,735	144,150
Non-delinquency post-purchase counseling	15,621	27,227
Home Equity Conversion Mortgage (HECM)	16,177	33,544
Homebuyer/homeowner educational group sessions	256,531	240,652
Rental counseling	92,608	322,330
Homeless counseling	22,452	66,258
Total	628,687	1,092,004

* FY2002 appropriations = \$20 million

** Clients covered by HUD grant funds represent clients whose counseling costs are covered by a HUD grant.

*** Clients served by HUD-approved agencies represent all clients who receive counseling from agencies that are part of the HUD-approved network. Only a portion of agencies that are HUD-approved receive HUD grant funds, but HUD collects data on all clients served by HUD-approved agencies.