



Written Testimony of
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*Creating Educated Homebuyers:
A Comprehensive Approach*

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Committee on Financial Services
Subcommittee on Housing and
Community Opportunity

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

Overview of Neighborhood Reinvestment Corporation and The NeighborWorks Network

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

NeighborWorks Network

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

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

concentrated effort pays off by not only creating comprehensive opportunities for families to build assets, but also by revitalizing distressed communities.

Housing Counseling as a Community Development Tool

Buying a home is a very complex process. Many consumers, regardless of income, race, age, or level of education, need help to negotiate this process successfully.

The housing counseling industry is growing in importance and sophistication. Real estate market dynamics are shifting, as the financial services industry is venturing into the “emerging market” of low-income and minority families, and more credit is available to the credit-impaired and less sophisticated potential homebuyers. In the midst of these changes, housing counseling agencies are becoming more critical to the home-buying process. Many minority families, particularly immigrants, lack the information and familiarity with mainstream financial institutions, which makes them vulnerable targets for high cost loans and predatory lending practices. Therefore, community-based nonprofit housing counseling organizations play a pivotal role as they reach out to these families and provide objective education on various financial services and housing options. These local counseling agencies, including NeighborWorks organizations, are a critical link in increasing sustainable homeownership opportunities for low- and moderate-income families in the United States.

Homebuyer education is currently offered by a variety of players, both for-profit and non-profit, and the educational methods range from workbooks, to advice and information given out on the telephone, to formalized group classes, homebuyer clubs and intensive one-on-one counseling. The most effective counseling occurs before there is a contract to purchase a specific home, ideally even before a family begins to search for a home. However, post-purchase counseling is crucial to help families maintain their homes, refinance, or to manage delinquencies.

Pre-purchase homebuyer counseling and education has a measurable, positive impact on loan performance, reducing defaults by up to 34 percent, controlling for other factors, according to a recent Freddie Mac study. Another study from Ohio State concludes counseled borrowers have a default risk one-half the size of non-counseled borrowers. A study of credit counseling by Georgetown University shows three years after loan origination; those borrowers with counseling have better overall credit health. This is also born out with the experience from our NeighborWorks network, which I will highlight later in my testimony. I would be glad to share these and other studies with you as you continue to explore the value of housing counseling.

The NeighborWorks System: Standards and Results

Studies also tell us that the type of counseling offered matters significantly. Over the last ten years, the NeighborWorks Campaign for HomeOwnership has tested various innovations in housing counseling and developed strong standards and a nationally-recognized framework for positive housing counseling results.

The Campaign for Home Ownership is a joint effort involving banks, insurance companies, secondary markets, government, the real estate community and others, coordinated by Neighborhood Reinvestment Corporation to bring families of modest means into home ownership. The NeighborWorks Campaign for Home Ownership has assisted over 75,000 low- to moderate-income families to purchase homes, educated almost 400,000 families, and generated over \$5 billion in reinvestment in communities.

Neighborhood Reinvestment's Campaign for Home Ownership has set a national standard for pre-purchase homeownership education and established a five-day training and certification course for counselors and trainers at its NeighborWorks Training Institute. Over 3,000 housing counselors per year have been certified through this course.

Trainers certified by Neighborhood Reinvestment Corporation adhere to the following standards:

- All potential homebuyers receive a minimum of eight hours of group homebuyer education with follow-up individual counseling;
- The housing counselors are certified by Neighborhood Reinvestment after completing the five-day "Homebuyer Education Methods: Training for Trainers" class at the Neighborhood Reinvestment Training Institute and passing the course exam;
- The content, delivery and format of the homebuyer training is tailored to meet the needs of the participants (rather than a one-size-fits-all approach);
- Ideally, the training and counseling occur before a purchase contract is signed;
- Customer satisfaction surveys are used to evaluate the effectiveness of the training; and
- A code of ethics is developed for all volunteer trainers.

Leaders of community-based organizations in the national NeighborWorks network recognized that the conventional mortgage market could not fully meet the needs of their lower-income customers. By creating a system that reaches these customers, teaches them about home ownership, and prepares them to be owners, these nonprofits have not

only been able to help lower-income families obtain the American Dream of Home Ownership, but have also done so in a way that reduces the risk of delinquency and foreclosure. This system, service marked as Full Cycle LendingSM, includes pre-purchase homebuyer education, flexible loan products, property services and post-purchase counseling.

Full Cycle LendingSM is a process that benefits all stakeholders in the homeownership arena. Residents can overcome hindrances to ownership as the process is demystified; they save for a down payment and they secure their home and mortgage. Lenders can invest with confidence about an owner's ability to repay the mortgage. Local government officials can take pride in watching neighborhoods change. As more and more homeowners stake a claim in their communities, they enhance the tax base and contribute to overall community stability and renewal.

The Steps of NeighborWorks Full-Cycle LendingSM



1. Organization Partnership-Building. The NeighborWorks organization makes a commitment to the process by creating a partnership of residents, business and local government leaders. A plan for targeted community revitalization is put in place.
2. Pre-purchase Homebuyer Education. The homebuyer learns about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate the rehabilitation needs of the property.

3. Flexible Loan Products. Local lenders work with the NeighborWorks organization to create mortgage products the customer can afford -- with features like lower down payments, downpayment assistance, and rehabilitation loans even when the total cost exceeds the value of the home. Property casualty insurance and mortgage insurance companies provide products that allow for the high loan-to-value ratios. The lender can hold the loans in portfolio or package and sell them to Freddie Mac or Fannie Mae's secondary markets. Neighborhood Housing Services of America purchases special-needs first mortgages as well as second- and third-mortgage rehabilitation loans. The secondary markets return funds to the lender, who recycles them by originating additional mortgages to the community.
4. Property Services. The NeighborWorks organization inspects the property, offers technical assistance to the homebuyer and assists with the property's rehabilitation.
5. Post-purchase Counseling. The NeighborWorks organization trains the new owners in home maintenance and budgeting, and supplies early intervention delinquency counseling so that defaults and foreclosures are avoided.
6. Neighborhood Impact. Homeowners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency.

The homebuyers directly assisted by the NeighborWorks system largely represent traditionally underserved populations: ethnic/racial minorities, lower-income, and female-headed households. Fifty one percent of homebuyers were non-white, 67 percent earned less than the area median income, and 44 percent were female-headed households.

Demographics of NeighborWorks Homebuyers

| Demographics of | Percent of Homebuyers |
|--|------------------------------|
| Homebuyers: FY1998 - 2003 ⁽⁴⁾ | |
| Whites (Non-Hispanic) | 49 |
| African-American | 23 |
| Latino/Hispanics | 23 |
| Others | 5 |
| Total | 100 |
| (4) The race/ethnicity of 422 clients was not available. | |
| | |
| Household Income ⁽⁵⁾ | Percent of Homebuyers |
| Less than 80% AMI | 67 |
| 81% - 120% AMI | 23 |
| Above 120% AMI | 10 |
| Total | 100 |
| (5) The household income of 975 clients was not available. | |
| | |
| Household Head's Gender | Percent of Homebuyers |
| Female | 44 |
| Male | 26 |
| Joint | 30 |

Despite the challenges faced by the clients they serve, the high quality of counseling offered by NeighborWorks organizations is demonstrated in the loan performance. Based on a representative sample, mortgage delinquency among NeighborWorks customers is actually lower than for all mortgage loans in the United States (as reported by the Mortgage Bankers Association of America). Moreover, NeighborWorks loans were foreclosed upon in only 0.25 percent of cases, less than both the 0.38 percent of all U.S. loans, and 0.28 percent of conventional loans.

NeighborWorks Network

Comparative Data on Single-Family First Mortgage Home Loans

(As of September 30, 2003)

| | Past Due Loans | | | Total Past Due | Foreclosures (Started 7/1/03 - 9/30/03) |
|---|----------------|---------|----------|-------------------|---|
| | 30 days | 60 days | 90+ days | | |
| All Loans (U.S.) | 2.77% | 0.71% | 0.80% | 4.28% | 0.38% |
| Conventional | 2.02% | 0.45% | 0.46% | 2.93% | 0.28% |
| VA | 4.60% | 1.38% | 1.76% | 7.74% | 0.48% |
| FHA | 7.24% | 2.21% | 2.68% | 12.13% | 0.98% |
| NeighborWorks Campaign Clients | 1.93% | 0.69% | 0.98% | 3.60% | 0.25% |

Source: NeighborWorks Campaign clients' data pertaining to Neighborhood Housing Services of America (NHTSA) portfolio of 2,928 loans, amounting to \$197.82 million; all other data are provided by the Mortgage Bankers Association of America's (MBAA) economic department.

NeighborWorks Center for Homebuyer Education and Counseling

Responding to increasing demand for training, Neighborhood Reinvestment Corporation expanded its homeownership education certification course to trainers and counselors outside of the NeighborWorks network in 1997. Since that time, more than 3,000 homeownership education trainers and counselors have graduated from the “Homebuyer Education Methods: Training the Trainer” and “Housing Counseling” courses at the NeighborWorks Training Institutes. Neighborhood Reinvestment’s training certification programs in homeownership education and counseling are considered by many to be the finest in the country, and I can provide NeighborWorks Training Institute brochures to you that contain more detailed information on these programs.

The “Blueprint for the American Dream,” developed in response to President Bush's initiative to increase homeownership among minority households, identifies the lack of access to quality homeownership education and counseling as one of the foremost barriers for low- and moderate-income families to achieve homeownership. As I mentioned earlier, the experience of the NeighborWorks system and studies by Freddie Mac, Georgetown University, and Ohio State demonstrate that credit and pre-purchase homeownership education and counseling can lower delinquency rates, but the quality of education and counseling make a significant difference. Unfortunately, there are currently no national standards and the quality of education and counseling is extremely uneven – ranging from Neighborhood Reinvestment’s state of the art curriculum and standards to “sham” counseling programs that lure potential buyers into predatory loan deals. Many industry leaders have called for national standards and nation-wide certification for housing counselors, and Neighborhood Reinvestment has initiated steps to fill the void.

Neighborhood Reinvestment proposes to greatly expand our current efforts through the creation of a new NeighborWorks Center for Homeownership Education and Counseling. The mission of the Center will be to work with industry partners and the broader nonprofit housing counseling field to set national standards, provide expanded training and certification opportunities for existing counselors, and support counselors with tools, information, and continuing education. The Center proposes to significantly increase to the number of homeownership counselors and educators trained and certified by Neighborhood Reinvestment – and ensure effective education and counseling of individuals and families.

In addition to expanding training and certification of homeownership educators and counselors, Neighborhood Reinvestment proposes to provide support to NeighborWorks organizations, national and state intermediaries, and direct service providers to help them expand their home ownership education and counseling. The Center will help organizations employ new counselors and educators, market their programs to minority families, produce new services and tools, and serve consumers in a more efficient and effective manner. In addition, support will be given to other national housing counseling

intermediaries to host and sponsor local trainings for certification and continuing education for their members; provide quality control for affiliate organizations, counselors and trainers; and submit data on homeownership education and counseling activities nationally.

The Center will focus on providing training, tools, and information for both pre- and post-purchase education and counseling. In addition to the core five-day homebuyer education training of trainers' course, the Center will feature other courses such as Teaching Financial Fitness; Housing Counseling; Credit Counseling for Maximum Results; Helping Homeowners Avoid Delinquency and Predatory Lending; Home Maintenance and Financial Management for New Homeowners; and Involving New Homeowners in the Community.

Neighborhood Reinvestment is planning a special national symposium at our Washington, D.C. NeighborWorks Training Institute on August 11th on "Homebuyer Education and Counseling: Taking It to the Next Level." We hope to convene over 300 practitioners, funders, policymakers and other interested parties to discuss the challenges and opportunities facing the housing counseling industry. We would welcome your participation in this event.

Conclusion and Summary

Let me close by thanking the Subcommittee for the opportunity to speak about the housing counseling efforts of the NeighborWorks system. The model of Full-Cycle Lending has enabled NeighborWorks organizations across the country to prepare consumers for the home-buying process, and to ensure that they can sustain homeownership in the long term. The lessons that we have learned over the years have prepared us to collaboratively set and enforce housing counseling standards, which are critical to successful and sustainable homeownership.

We believe that, with your support, the quality and consistency of housing counseling services will be greatly enhanced. These services will ensure that all Americans have access to the quality education that is necessary to make informed choices about homeownership.