

**HOMEBUYER EDUCATION
AND COUNSELING:
EXAMINING RURAL PROVIDER
NETWORKS IN TEXAS, FLORIDA
AND SOUTH DAKOTA**

***Homebuyer Education and Counseling:
Examining Rural Provider Networks
in Texas, Florida and South Dakota***

Housing Assistance Council

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HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services.

TABLE OF CONTENTS

Introduction 1
Literature Review 4

Texas 7
 Overview 7
 E&C Processes and Curricula 11
 Rural Outreach 14
 Funding 14

Florida 16
 Overview 16
 E&C Processes and Curricula 18
 Rural Outreach 21
 Funding 23

South Dakota 24
 Overview 24
 E&C Processes and Curricula 26
 Rural Outreach 26
 Funding 27

Conclusion 29

References 31

Map 1: Texas Border/Colonias Counties 9
Map 2: Florida Nonmetro and Persistent Poverty Areas 22
Map 3: South Dakota Metro Areas and Native American Lands 25

INTRODUCTION

Housing education and counseling (E&C) for prospective low-income homebuyers has become increasingly popular with many lenders, both public and private. The U.S. Department of Agriculture Cooperative Extension Service defines *education* as the general familiarization of borrowers with the homebuying process, whereas *counseling* is the more individualized “hand-holding” that borrowers may need as they meet particular challenges along the way. Since education is more amenable to a standard classroom setting, it is typically less expensive than *ad hoc* counseling on a continuing basis.

Consistent national E&C standards have also become particularly important to affordable lending providers and loan guarantors, as government programs for affordable housing are rapidly giving way to public-private partnerships. However, national lenders are also increasingly concerned that state and local E&C networks may not be in place with the capacity and sustainability to deliver these programs reliably to their borrowers, especially in rural areas.

In this research project, the Housing Assistance Council (HAC) has conducted a preliminary examination of the existing E&C organizational capacity in rural Texas, Florida and South Dakota. Texas and Florida were chosen based on the diverse populations within their borders and South Dakota was chosen based on its need for E&C provider networks. For each state, this study has outlined what rural homebuyer E&C networks are in place, their characteristics, and how fiscally sustainable they are.

National Networks

There are several national networks of homebuyer education and counseling organizations, many of which are active in rural areas. The more well known national networks are:

△ *HUD-approved organizations:*

Nationally, 355 E&C providers are approved by HUD and are eligible for HUD funding (many are affiliates of the National Foundation for Consumer Credit). In 1997, HUD awarded \$12.3 million worth of grants for homebuyer education and counseling. \$4.7 million went to 5 national intermediaries (ACORN Housing Corporation, National Association of Housing, NFCC, Neighborhood Reinvestment Corporation, and Catholic Charities, USA). The remaining \$7.8 million went directly to the local HUD-approved counseling organizations.

The Fiscal Year 1998 SuperNOFA¹ focused on giving grant funds to state housing agencies, which would then use the funds either for state-wide initiatives or for local E&C providers.

△ *National Foundation for Consumer Credit:*

The National Foundation for Consumer Credit (NFCC) is a network of 1450 nonprofit agencies that provide money management education, confidential budget, credit, and debt counseling, and debt repayment plans for both individuals and families. Individual network members are called Consumer Credit Counseling Service [CCCS] organizations. Although individual CCCS

¹ Notice of Funding Availability

groups have the capacity and training to do homebuyer education classes, the extent to which they do so is decided on a local level, based on considerations of budget and class size. Nonetheless, virtually all CCCS groups do individualized counseling and/or work in conjunction with local nonprofits who need credit counseling referrals.

△ *HomePath Counseling Organizations:*

HomePath is a referral list of E&C organizations provided on the Fannie Mae HomePath web site. Although none are certified, approved or funded by Fannie Mae, several are HUD-approved and/or are CCCS organizations.

△ *NeighborWorks Network members:*

NeighborWorks is a network of 200 autonomous, nonprofit corporations created and technically assisted by the Neighborhood Reinvestment Corporation (NRC) – a national nonprofit organization chartered by Congress in 1978. Many NeighborWorks organizations are also affiliated with the Neighborhood Housing Services of America (NHSA) – an NRC partner organization that has made more than \$2 billion in reinvestment loans to NeighborWorks members through a variety of affordable secondary mortgage products. While NeighborWorks members do not directly receive funding from NRC, they do receive materials and a core curriculum for NRC’s “Full-Cycle Lending” process, which includes a substantial homebuyer education and counseling component.

△ *USDA Rural Development State and District Offices:*

Although Rural Development offices do not typically have E&C funds for either their or other groups’ use, they often assist local groups by pointing out funding sources or speaking at homebuyer education classes.

△ *USDA Cooperative Extension Services:*

USDA Cooperative Extension Services offer adult education through the USDA Land Grant colleges (one in each state) and the HBCU (historically African-American) colleges. However, not all of the Cooperative Extension Service programs offer or have a budget set aside for homebuyer education and counseling.

Although these networks offer considerable E&C support to their member groups, their effectiveness dwindles considerably in rural areas. Rural areas have to deal not only with sparse organizational capacity and funding, but also with geographic isolation and population diffusion. Even in areas where permanent delivery systems are already in place, practitioners face the challenges of long commutes to remote areas and modifying the standardized materials provided to them to meet the particular linguistic or cultural needs of their clients.

Methodology

HAC has conducted a preliminary assessment of the existence and capacity of homebuyer E&C networks in Texas, Florida and South Dakota by interviewing state housing officials, private lenders and nonprofit development groups, including topics such as:

- △ What homebuyer education and counseling networks are present in the state and how many providers do they represent? Is there an equal emphasis on both education *and* counseling programs? If not, why?
- △ How is education and counseling made available (by phone, through mail-outs, or in person)? Does education take place in a classroom setting or one-on-one with a specialist?
- △ Under what circumstances is E&C made available (on a regular basis or in crisis situations only)?
- △ What education and counseling process takes place once a borrower has been contacted? Is that process standardized for all borrowers?
- △ What curriculum materials do they use (such as written material, videos or “hands-on” learning)? Are these materials available in more than one language, if needed? If so, what language?
- △ Is homebuyer education and counseling provided “in-house” by the lenders or by outside organizations?
- △ What do the programs cost? How are they currently funded and what are prospects for future program funding?
- △ How do they evaluate their own education and counseling efforts? What kind of standards do they apply?

This study did not address measuring the overall effectiveness of E&C delivery, but rather focused on a description of what networks are in place and what their key characteristics are.

In addition, detailed information was not available in each state on exactly how much homebuyer education and counseling cost, the precise numbers of people served, and how those figures compared between states because:

- △ the sources of funding for each group varied significantly, with several groups using more than one source;
- △ several individual groups (particularly in Texas) have their own tailored in-house curriculum, making it very difficult to compare costs between groups;
- △ individual group costs and costs to networks would not be comparable;
- △ many groups (particularly at the local level) do not keep ongoing records of the numbers of clients served and are reticent to discuss details regarding their own budgets; and
- △ many groups that are network members do not have specific budgets for E&C activities, but have those activities as an overall part of their work (such as NeighborWorks members and Rural Development district offices)

LITERATURE REVIEW

Concern for Homebuyer Education and Counseling

The current trend toward homebuyer education and counseling (E&C) for low-income applicants originated in what Eugene A Ludwig, former Comptroller of the Currency, calls “the democratization of credit.” Whereas in the 19th Century only the wealthy were considered credit-worthy, the late 20th Century has seen the considerable expansion of affordable mortgage credit into the low-income single-family market. The momentum of this trend increased dramatically with the passage of the Community Reinvestment Act in 1977 and the National Affordable Housing Act of 1990, which required counseling or educational assistance to potential borrowers.

In order to insure the solvency of these loans, lenders began to discuss seriously the need for homebuyer E&C in the 1990s (though the default rate for low-income borrowers was the same or lower than those of upper-income borrowers)². However, before committing funds for these activities, it was necessary to know if the effort would be cost-effective.

Measuring E&C Effectiveness

In 1996, Roberto Quercia and Susan Wachter published an article in *Housing Policy Debate* on a proposed method of measuring quantitatively the outcomes of homebuyer E&C through a detailed multivariate analysis.³ The article proposed that a sample of E&C clients that was selected randomly and was large enough could measure E&C effectiveness, defined as default rates for the sample. The article also proposed that the best study design would be a controlled experiment based on these premises, with a “treatment group” receiving training compared to a control group that did not.

A study by the Housing Assistance Council (HAC) reviewed eleven E&C assessment studies ranging from 1975 to 1995,⁴ and found that virtually none of the studies were generalizable to rural areas (in fact, none even included places outside of major metropolitan areas). In addition, qualitative factors such as immigrant homebuyers’ reluctance to deal with lenders, distances involved in rural outreach, and lack of physical or organizational infrastructure are critical factors affecting rural E&C delivery that cannot be accounted for simply through sample size and randomness.

The HAC report concludes that, while quantitative measurements such as default rates and cost of defaulted loans may be useful, they are sometimes not meaningful to rural homebuyer E&C providers. Rural providers often use qualitative measures such as “improved self-esteem,” and

² Ibid., p. 5.

³ Quercia and Wachter. 1996. Homeownership Counseling Performance: How Can it be Measured? *Housing Policy Debate*. Vol. 7, Issue 1: pp. 175-200.

⁴ Housing Assistance Council (HAC). 1997. *Housing Counseling in Rural America*. Washington, D.C.: HAC.

see these factors as critical to E&C success – perhaps not in the short run but in the long run by enabling families to continue to work on their credit problems until they reach eligibility.⁵

Curriculum Standardization

In May 1997, a group of lenders, guarantors, low-income advocates and government entities formed the American Homeowner Education and Counseling Institute (AHECI). According to Karen V. Hill, AHECI Chief Executive, “The issues that drove the development of the Institute were a desire by all members of the lending industry to support counseling; to gain control of cost-effectiveness, services, expectations and outcomes, and quality control measures; and to receive accurate data.”⁶

In her introductory comments to the AHECI *Draft Core Curriculum*, she also states that the draft was formed “during a time of great technological change in the home lending industry.”⁷ A great part of this technological change consists of the centralization of loan servicing that has occurred in the wake of the mergers, acquisitions, and government downsizing of the 1990s, alongside the “democratization of credit.” Consequently, lenders are seeing a standardized core curriculum – one that covers a defined set of essential topics that counseling practitioners agree upon – as increasingly necessary to insure that E&C providers are transferring the same baseline knowledge to their clients on a large scale.

At a 1997 symposium on affordable housing loans, Hill related that when large public or private lenders expend money for homebuyer E&C, they are not necessarily guaranteed loan solvency across the board: “We have an environment in which thousands of people that are a part of these programs believe they are ready for homeownership, yet very few are successful in obtaining a mortgage. If you are in the industry, you’re wondering why you’re getting so few loans for your investments.”⁸

James H. Carr, then Vice President of the Fannie Mae Foundation, also noted the impact that inconsistent education and counseling delivery had on affordable single-family mortgage lending: “As a result of the diversity of ways in which counseling services are provided, much of the industry’s affordable loan performance reflects borrowers who received counseling that was not delivered in a manner that might improve loan performance more effectively.”⁹

⁵ Ibid., p. 91.

⁶ Office of the Comptroller of the Currency (OCC). 1997. *The Single-Family Affordable Housing Market: Trends and Innovations*. National Symposium, Philadelphia, 23 July 1997. p. 52.

⁷ AHECI. 1997. *Draft Core Curriculum*. Washington, DC: American Homebuyer Education and Counseling Institute, p. vi.

⁸ OCC. Op. cit., pp. 52-53.

⁹ Ibid., p. 24.

Consequently, lenders view a nationally standardized core curriculum and certification standards as necessary to mitigate inconsistent delivery at a local level and enhance the ability to measure results at a national level.

A standardized curriculum, however, would be useless without a solid network of E&C providers to use it consistently on a long-term basis. While there is some general knowledge about the size of national E&C provider networks, there is virtually no knowledge of the extent to which those networks penetrate rural areas, what other kinds of providers are available, what kinds of curricula they are teaching and whether they are fiscally viable.

Homebuyer education and counseling is just as important in rural areas as it is in major metropolitan ones. While homeownership is very common in rural areas, rural E&C providers have reported that “their clients, who tend to be first-time homebuyers, often are as ignorant as their urban counterparts about mortgages and preventive home maintenance.”¹⁰

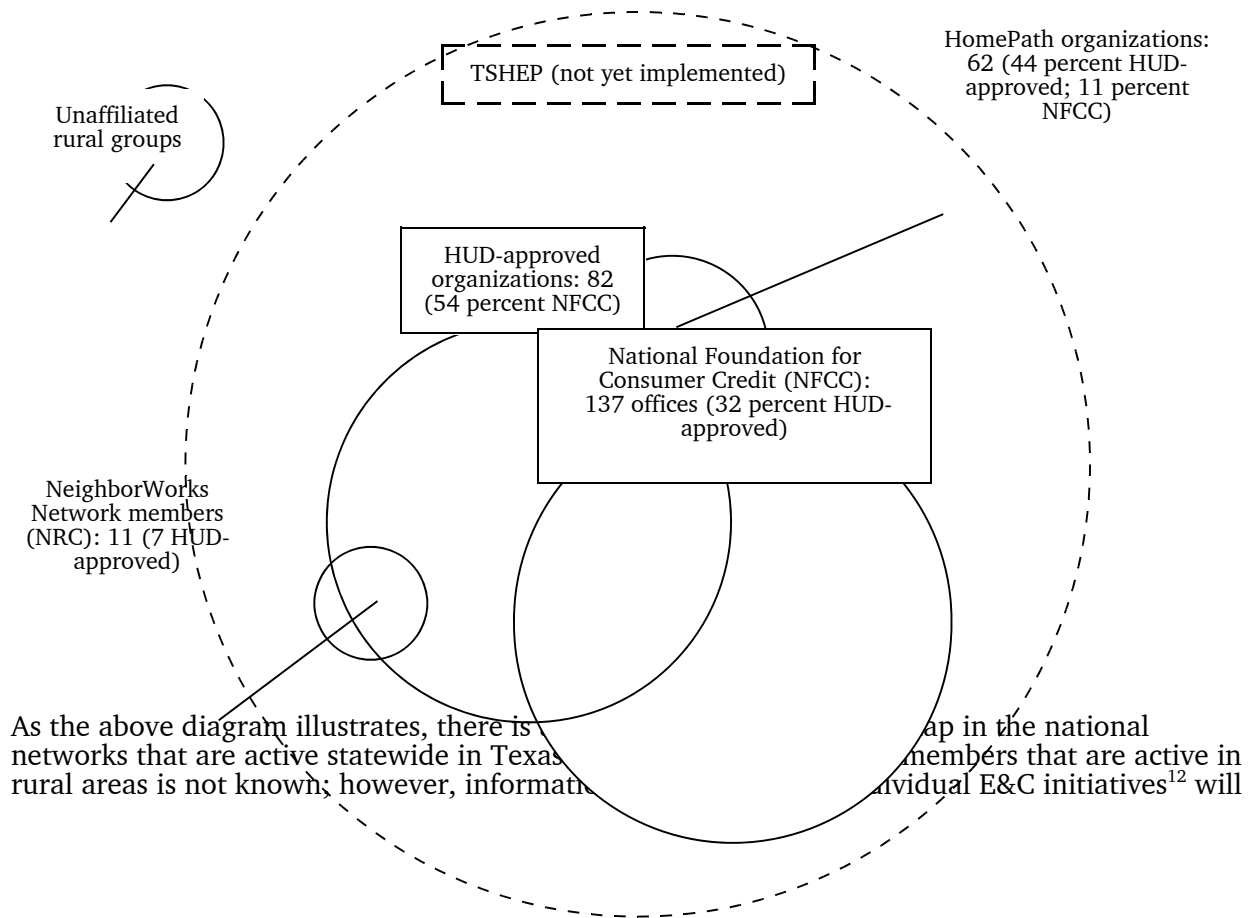
¹⁰ HAC, Op. cit., p.16.

TEXAS

Overview

Texas has a wide range of homebuyer education and counseling (E&C) providers affiliated with several networks. National networks operating statewide include:

- △ HUD-approved organizations
- △ National Federation of Consumer Credit (NFCC)
- △ NeighborWorks Network members (affiliates of the Neighborhood Reinvestment Corporation)
- △ HomePath organizations (Fannie Mae Foundation)
- △ Texas networks:
 - △ Texas Association of Community Development Corporations (TACDC)¹¹
 - △ Texas Statewide Homebuyer Education Program (TSHEP)



¹¹ Number of members not known

¹² These are specific programs initiated by particular groups, rather than the activities of a statewide network.

give some idea of the challenges and issues present in Texas rural areas, particularly the colonias along the Texas/Mexico border (Map 1).¹³

Home of Your Own Program

Home of Your Own (HOYO) is a multi-county program with office sites in El Paso, Austin, Houston and McAllen. Funded by a grant from the Texas Planning Council for Developmental Disabilities, United Cerebral Palsy of Texas started HOYO as a project to help people with disabilities attain homeownership. Each HOYO office partners with a local E&C provider group, which includes HOYO clients in their regular classes in order to mainstream them. The offices also form coalitions of housing, legal, financial, and advocacy professionals to meet once a month to discuss homeownership issues for persons with disabilities in their area. Although the program is not specific to rural areas, it is as geographically inclusive as possible and the area around McAllen is very rural.

Fannie Mae Foundation Initiatives (Proyecto Azteca)

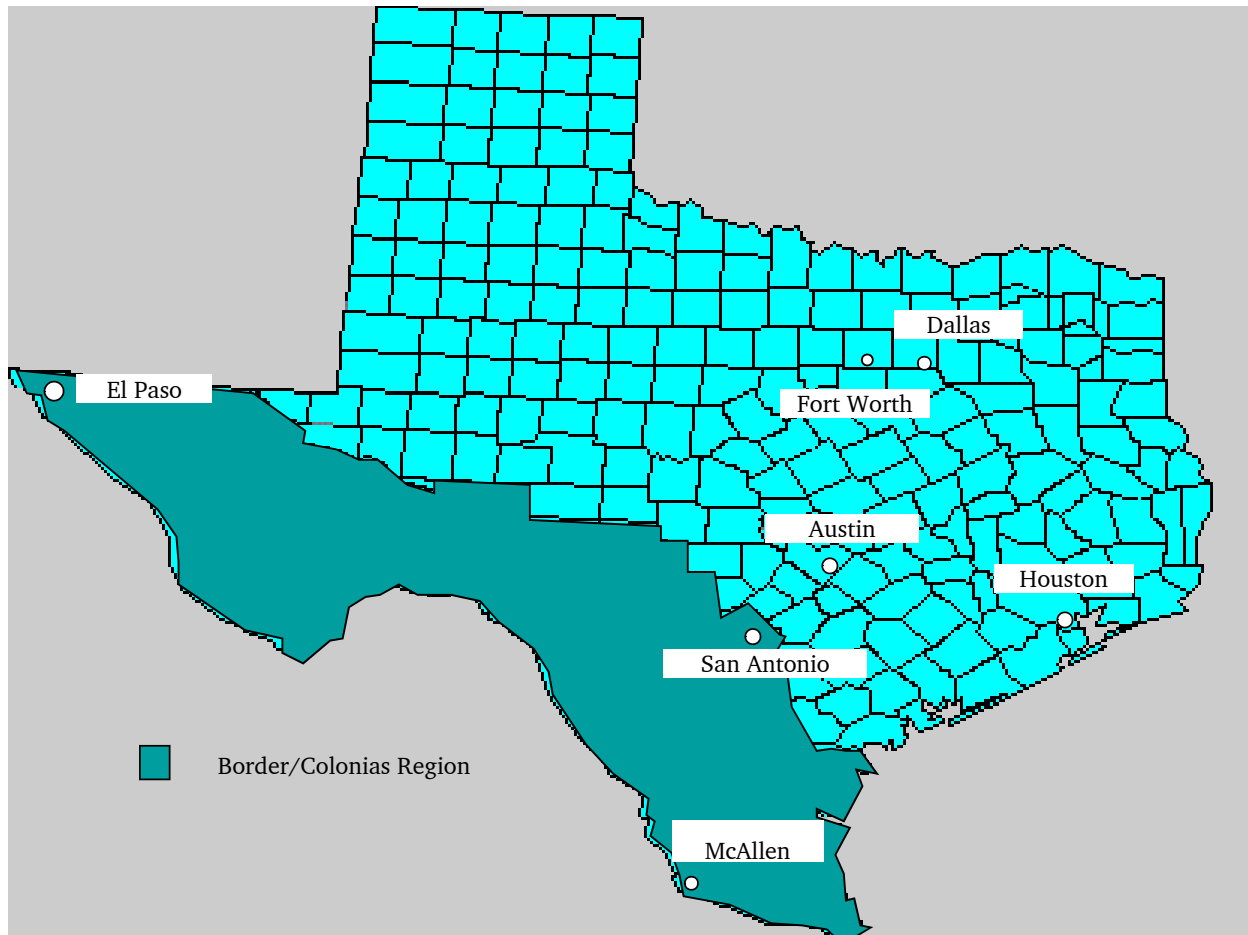
The Fannie Mae Foundation is currently working with two community colleges – El Paso Community College and University of Texas Pan American (UT Pan Am) – to provide grant money for homebuyer education and counseling in their areas. El Paso Community College has a grant for financial literacy classes (using Fannie Mae material) to educate its own student population about homebuyer issues such as credit repair. The Foundation has also provided a four to five year grant and homeownership guides to UT Pan Am for its joint effort with the Rio Grande Empowerment Zone to build 35 homes and renovate 150 in rural areas along the Texas/Mexico border.

In a second initiative – the Texas Coalition Initiative – Fannie Mae is beginning to work with the Texas Coalition for Immigration/Refugee Assistance to link homebuyer E&C classes with the Coalition’s English as a Second Language (ESL) and citizenship classes. This statewide effort is significant in that it promotes homeownership for Hispanic immigrants – who currently comprise the largest racial/ethnic group of new homebuyers.

A third initiative – the Farmworker Housing Initiative – is still in the implementation stage. Fannie Mae is planning to develop financial literacy materials geared toward homeownership for

¹³ The focus on the colonias is out of consideration that the entire state is too large to examine all rural areas, which include the panhandle and much of central and east Texas. The colonias are also the subject of interest because of the uniqueness of their population – Hispanic immigrants – and the distinctive education and counseling necessary to address their situation.

MAP 1: TEXAS BORDER/COLONIAS COUNTIES



predominantly Hispanic farmworkers in Washington state, California, Texas and Florida. The materials are intended to help farmworkers to move from a cash-based economy to a credit-based one so that they can build the financial assets to eventually move to mainstream homeownership.

In Texas, Fannie Mae is working toward a partnership with Proyecto Azteca, a local nonprofit that serves as both housing developer and lender in the border/colonias region. Proyecto primarily uses HOME funds for their program, although they are also notable for being the only organization in the colonias area that packages RHS Section 523 Rural Housing Site Loans. Their program focuses on helping recent immigrants inside the U.S. border build safe homes and improve the construction in ones that have already been hastily improvised. Proyecto also requires their clients to go through housing education classes before they are allowed to begin the construction of their homes, with various components such as legal documents, budgeting, tax appraisal and insurance.

The Texas Statewide Homebuyer Education Program

Prior to 1997, there was no significant provision of housing counseling services by the Texas Department of Housing and Community Affairs (TDHCA). However, in 1997 the Texas legislature passed HB 2577. The bill mandated the development and implementation of a statewide homebuyer education program, to be administered by the TDHCA. The resulting entity, the Texas Statewide Homebuyer Education Program (TSHEP), was charged with bringing comprehensive homebuyer E&C to all 254 Texas counties.

In compliance with the legislation, a working group was formed to conceptualize the program that included many major networks already active in the state (although no local groups or rural advocates were included). Members of the current workgroup are:

- △ Fannie Mae
- △ Freddie Mac
- △ Neighborhood Reinvestment Corporation (NRC)
- △ Wells Fargo Bank
- △ United Cerebral Palsy of Texas, Inc.

Out of six applicants for a training grant to certify providers statewide, NRC was chosen, with training planned for June 1999. The TSHEP legislative summary states that when the E&C programs are scheduled for local implementation, the first groups to be targeted should be in underserved areas of the state. However, an officer with NRC (a key player in the TSHEP drafting process) commented that the program “doesn’t have any special rural ‘slant’ other than the first group we will train may be the agricultural agents.”

TSHEP has formulated a comprehensive referral list of 173 local E&C providers. Only 28 of them (16 percent) are unaffiliated with any major national network (NFCC, NRC, HomePath or government agencies). However, only 73 (42 percent) are officially HUD-approved, and local practitioners say that there are many more small, unaffiliated groups unaccounted for – all of which pose problems for statewide standardization of curricula and certification.

In addition to the above initiatives, the rural activities of the national E&C networks in Texas are as follows:

National Federation of Consumer Credit

The National Federation of Consumer Credit (NFCC) network is the most extensive network in the state (and in Florida and South Dakota as well) with a total of 11 central offices and 137

small satellite offices. Consumer Credit Counseling Service (CCCS) offices (local branches of the NFCC) comprise 54 percent of all HUD-approved organizations in the state. Although the network does not do homeownership educational courses, it is probably the greatest counseling resource available and many E&C providers will refer class attendees to them. While not all of the offices focus specifically on homebuyer issues, they are the most reliable resource for client credit repair – which is the greatest factor in low-income applicants being refused for Section 502 direct loans and other affordable housing programs.

NeighborWorks members

There are dozens of NeighborWorks groups throughout Texas, with four covering rural areas. The Neighborhood Reinvestment Corporation provides the groups with training and funding that includes homebuyer education and counseling. NHS (Neighborhood Housing Services) of Dimmit County serves a three-county area in the border/colonias region (LaSalle, Dimmit and Zavala) that has a population of roughly 35,000 combined. There appear to be no other E&C delivery networks present in this area, and the three counties served are on the USDA Rural Housing Service's list of the 100 most economically underserved counties in the United States.

E&C Processes and Curricula

E&C Availability

Statewide, homebuyer E&C is available in a variety of forms, with no clear pattern of what kind is most prevalent. Several networks offer both classroom education and in-person counseling; however, they may be offered in different combinations or settings. In addition to their members' activities, some networks may also offer training to E&C providers outside their network.

While local Rural Development offices have been directed by the state office to support nonprofits in E&C activities, they do not provide funding support. Rural Development agents are available to provide E&C information and several occasionally speak at homebuyer education classes.

	Pre-Purchase Classes	Individual Counseling	Both	Varies	Train Outside
NFCC	✓ ¹⁴	✓			✓
NeighborWorks			✓		

Some local nonprofits have made their own E&C modules available along with a unique delivery process. For instance, Proyecto Azteca has mandatory classes for each client before s/he goes through the rest of Proyecto's home construction program.

	Pre-Purchase Classes	Individual Counseling	Both	Varies	Train Outside
HOYO	✓ ¹⁵	✓			
Proyecto Azteca	✓				

All organizations offering pre-purchase classes (NFCC, NeighborWorks, HOYO and Proyecto) do so on a regular basis, typically at least once a month.

Curricula

While the TSHEP program is still in its preliminary implementation stages, a standardized curriculum has been developed which uses Fannie Mae, Freddie Mac and NRC materials as the core of the curriculum. Once implemented, the core class content can be modified to suit the particular needs of a set of clients (for example, the workgroup is planning to cover land ownership issues peculiar to the border/colonias region in add-on sessions). The main content of the program is pre-purchase education; however, many of the nonprofit affiliates do post-purchase counseling as well (such as the NeighborWorks groups). Fannie Mae materials are available in English and Spanish.

The following matrix indicates that, while E&C network members may be provided with standardized core curricula, individual groups often put together their own in-house materials, either written specifically for their clients or combining elements of other curricula with their own material.

B = Bilingual

	Produced In-House	Fannie Mae (B)	NRC	Combination

¹⁴ In Texas, orientation on credit issues takes place both in person and in classroom settings.

¹⁵ Staff provide classes and individual orientation on disability issues; clients are sent to the office's partnering organization for general homebuyer education classes.

HOYO	✓	✓		✓
Proyecto Azteca	✓ (B)			
NHS of Dimmit County	✓ (B)	✓	✓	✓
YWCA/CCCS (El Paso)	✓ (B)			

Many of the “in-house” curricula not only serve the specific needs of local clients; they are also geared toward preparing potential borrowers to qualify for their own specific loan programs. Consequently, across-the-board standardization of homebuyer curricula may serve more to burden their E&C efforts than to assist them.

While not all of the national organizations have bilingual materials, most of the organizations are able to find other bilingual material (typically Fannie Mae) or translate their own in-house curricula.

Processes and Tracking

The standardization of education and counseling processes also varies between groups and among networks. Practitioners at statewide offices (Texas Association of CDCs, TDHCA and Rural Development) observe that Texas homebuyer E&C in general is *ad hoc*, and even “haphazard” in rural areas. However, at the local level some practitioners have a much more standardized approach for each of the clients or client areas.

The El Paso YWCA/CCCS process consists of an orientation session, followed by a pre-screening session and their First Time Homebuyer Education Course. They also provides one-on-one counseling for homeowners at risk of foreclosure. The HOYO E&C process is very standardized – even between all of the coalitions. Finally, Proyecto Azteca has a standardized process for all of its clients that is tailored to meet the needs of their unique housing development program. They do not address credit issues through individual counseling, as these issues are not relevant in qualifying for their loan program; however, they do attempt to provide general education on budgeting by having credit counselors come in to teach courses

Nearly all of the local affiliates who conduct classes track their attendees after they have finished their course. In fact, Proyecto, NHS of Dimmit County and HOYO all track their clients from initial education to closing on a house (information was not available on YWCA/CCCS El Paso). However, overall client tracking in Texas is very weak, with little information available on the number of class attendees or counseling recipients who achieve homeownership.

Rural Outreach

Even though there are several new initiatives being generated in Texas, rural outreach is still a severe problem. The panhandle and the Texas/Mexico border are the least served by affiliated and accredited homebuyer E&C programs. According to the Texas Association of CDCs and the state Rural Development office, the vast majority of rural counseling is provided by small, unaffiliated community organizations. Small local nonprofits are often in a constant struggle to stay solvent and lack the resources to provide the levels of E&C that they see a need for. In the three-county area served by NHS of Dimmit County (Dimmit, La Salle and Zavala) there are no other delivery networks at all.

Consequently, national or state networks with limited funds simply do not know these organizations exist or have more pressing priorities in high-growth areas. Programs that have rural outreach as their express mission (the Farmworker Housing Initiative) have, as of 1999, not yet been implemented, consequently it is too soon to assess their impact. Finally, the unaffiliated organizations in rural areas not only have to deal with lack of support, they also are left with the burden of servicing large areas with little infrastructure or transportation.

Funding

For 1998, TDHCA has a budget of over half a million dollars earmarked for education and counseling. The funding from the 1998 HUD SuperNOFA (Notification of Funding Availability) was for a new national E&C funding effort targeting state housing agencies instead of individual E&C organizations or networks for support.

The resulting budget 1999 budget for TDHCA is:

1998 HUD SuperNOFA	\$380,000
Texas State Housing Trust Fund	\$200,000
Fees collected from other state agencies	\$60,000
Freddie Mac grant	\$15,000
TOTAL	\$655,000

However, there was virtually no TDCHA program available before 1997, and the HUD SuperNOFA money (over half of the budget) is only a one-year grant; consequently, the agency will sooner or later have to look for replacement funds. The vast majority of money will go to E&C provider groups, with grants of up to \$20,000 to \$70,000 will be spent on the NRC provider training sessions.

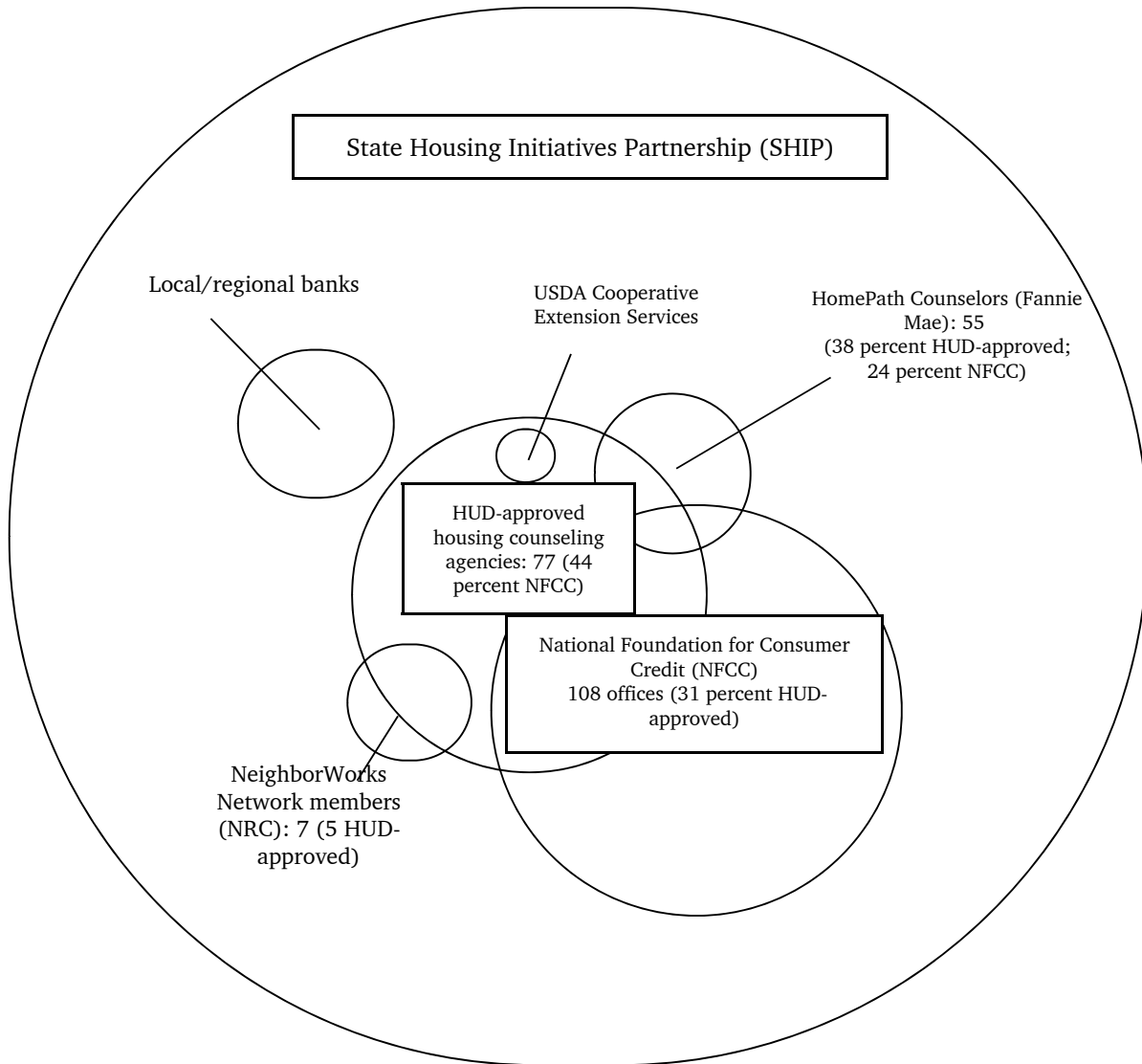
Statewide, the networks with the most solid funding seemed to be the NeighborWorks organizations (funded completely by the National Housing Services of America) and HOYO (on its third year of a five-year grant from the Developmental Disability Council). All of the education and counseling programs studied for Texas are free of charge to clients; however, YWCA/CCCS of El Paso does receive \$100 per house closing from the City of El Paso First Time Homebuyer Program.

While exact numbers were not readily available for the rest of the organizations interviewed, it is clear that there is virtually no stream of funding for rural areas as a whole or for the isolated rural nonprofits that serve them. In addition, none of the organizations contacted for this study were receiving any financial support from either local or national banks for E&C activities.

FLORIDA

Overview

Statewide, Florida has an extensive network of government, nonprofit, and other organizations that canvass nearly the entire state. Several counties are served by more than one E&C provider, and many potential homebuyers are (according to one USDA Rural Development official) “bombarded with information” in preparation for either direct or guaranteed Section 502 loan applications.



National networks active statewide in Florida include:

- △ HUD-approved organizations
- △ National Federation of Consumer Credit (NFCC)
- △ NeighborWorks Network members (NRC)
- △ HomePath organizations
- △ Florida networks:
 - Florida State Housing Initiatives Partnership (SHIP)

In addition to the networks above, the following initiatives have helped to extend Florida homebuyer E&C into rural areas:

Homes in Partnership, Inc.

Homes in Partnership, Inc. (HIP) operates out of the city of Apopka in central Florida. It serves a five-county area consisting of Orange, Lake, Sumter, Hernando and Osceola counties. HIP not only offers a holistic homebuyer program that includes both education and counseling, it is also the administrative agent for the Neighborhood Center for Families (NCF) – collaboration of several social service agencies including a credit union, an adult education program, a teen truancy prevention program, a child care program and a political empowerment program. NCF (originally the Apopka Growth Initiative) is funded by the Orange County Citizens Commission for Children, and is organized through neighborhood coordinators in the five-county area.

USDA Rural Development (Bartow and Live Oak)

The Bartow Rural Development office is the only Rural Development office in the state that provides direct homebuyer education classes. Area Four covers three counties in Central Florida (Polk, Hardee, and De Soto) just south of HIP's service area. The Bartow office regularly holds one class per month, nine to ten months of the year (with a break for summer).

In the Florida panhandle, the Live Oak Rural Development office serves seven counties - Suwanee, Hamilton, LaFayette, Madison, Taylor, Jefferson and Columbia. All of the seven counties are non-metro, two are remote rural¹⁶, and all are persistent poverty counties with a majority African-American population.

State Housing Initiatives Partnership

Florida homebuyers can also go to personnel with the State Housing Initiatives Partnership (SHIP) (one office per county). Enacted by the Florida legislature in 1997, SHIP pools statewide document tax money at the state level, then redistributes it to counties based on the number of below-poverty households (the greater the number, the more SHIP funds the county receives). The program is administered by the Florida Housing Finance Agency (HFA) – a quasi-public entity that serves as the housing agent for the state. SHIP provides low-income homebuyers with

¹⁶ As defined by U.S. Bureau of the Census and USDA, Economic Research Service, 1990.

direct downpayment and closing cost assistance¹⁷, under the stipulation that its clients undergo a thorough educational program (four one-and-a-half to two-hour classes).

Funds are set aside at the county level to fund the education programs, after which they are subcontracted out to local HUD-approved nonprofit E&C agencies. Unlike the TSHEP program in Texas, SHIP does not have a statewide list of recommended E&C providers, but each county is to “encourage the involvement of appropriate public sector and private sector entities as partners.” SHIP has partnered with several different kinds of homebuyer E&C providers, including HIP, Inc., the Bartow USDA Rural Development office, USDA Cooperative Extension Services in Tallahassee, and some private lenders (Sun Trust, First Federal Savings).

E&C Processes and Curricula

Although the description of the organizations below does not detail the E&C processes and curricula of every E&C provider in the state, it does provide a snapshot of the systems offered by different providers in different networks, operating in different areas of the state.

E&C Availability

	Pre-Purchase Classes	Individual Counseling	Both	Train Outside
HIP, Inc.			✓	
Rural Development Office (Bartow)	✓			
Rural Development Office (Live Oak)		✓		
SHIP			✓	
NFCC ¹⁸		✓		✓

Where classes are held, they are usually available on a regularly scheduled basis, often with child-care provided. HIP holds its classes weekly in the evening and during the day, in conjunction with bilingual GED classes and English as a Second Language classes. The Bartow Rural Development office holds their classes once a month, and attendance is typically anywhere from 70 to 140 (in fact, class sizes often have to be limited). However, the E&C service of these

¹⁷ While SHIP offices may partner with organizations that package low-income housing loans (such as Rural Development offices or HIP, Inc.) it does not lend money itself, but provides only direct assistance.

¹⁸ State contact not available for interview; information comes from the NFCC national program, which is fairly standardized.

organizations is either geographically limited (Bartow Rural Development and USDA Extension classes), uneven in their coverage (SHIP offices) or sporadic in their activities (private lenders).

Curricula

As in Texas, many local E&C providers create their own in-house curriculum from a combination of elements.

B = Bilingual

	Produced In-House	Fannie Mae (B)	Video	Speakers	Combination
HIP, Inc.	✓		✓		✓
Rural Development Office (Bartow)	✓	✓			✓
Rural Development Office (Live Oak)	✓ ¹⁹				
SHIP	✓	✓		✓	

HIP uses its own in-house booklets on homeownership and budget maintenance. The organization has also purchased a series of videos produced by Chevrolet called Home Time, addressing various topics such as home maintenance, common home repairs and home security. HIP rarely has speakers in its classes other than a construction supervisor who explains the construction and inspection process. HIP's Executive Director, however, considers the organization's most effective teaching tool to be its one-on-one counseling, as many low-income clients do not want to ask questions concerning their private affairs in front of a group.

In Bartow Rural Development classes, educational materials consist mainly of Fannie Mae homebuyer education booklets (bilingual – English and Spanish) and Bartow's own in-house worksheet packet that includes how to figure household income, cash and assets, how to spot indicators of unacceptable credit, and how to write a budget. When the office began offering homebuyer education classes in 1995, the class format was very "one-on-one"; however, as class sizes expanded, the class format changed to lecture/blackboard classes with opportunities for questions from attendees. According to the Bartow Rural Development agent, the large class format seems to have worked well, with most attendees getting the information they need.

While the Live Oak office does not regularly offer classes, it will hold them if the volume of loan applicants builds up to a classroom-size group (this only occurs once or twice a year). Nonetheless, the vast majority of its applicants have already attended one of the SHIP classes,

¹⁹ One-on-one orientation includes going over the standard RHS Section 502 Direct Loan prequalification form in order to familiarize the client with program regulations and qualification criteria.

which have very detailed curricula with notebooks, slides, videos, and speakers with their own handouts. The Live Oak office also does extensive counseling with loan applicants, helping them fill out application forms and walking them through the credit repair process where appropriate.

The SHIP curriculum is standardized, using homebuyer guides from Fannie Mae and books on credit and consumer protection, hand-outs and work-sheets. Partnering lenders often have bilingual staff who serve as translators during class sessions. According to the HFA Housing Chief, educators on a local level use any tools (in addition to the core curriculum) that are most effective for their clients, including speakers and testimonials from successful homebuyers who have repaired their credit.

Processes and Tracking

Out of the Florida E&C initiatives examined above, SHIP has the most consistent education and counseling process and thorough follow-up process. According to the Florida HFA office, SHIP's "hands-on" strategies require attendees write out their own budget, set short-term goals for repairing any bad credit, and set long-term financial goals (such as homeownership). After the classes are complete, attendees are tracked in a database and progress on their credit and homebuying goals is monitored once every six months. On a local level, the partnering E&C organizations do any personal counseling necessary.

HIP's clients are typically referred by one of the Neighborhood Center for Families' neighborhood coordinators. When a family contacts the HIP office, they are asked if they are interested in homebuying and whether or not they have any credit problems. According to HIP's director, this kind of counseling is very important because clients frequently do not know that they have credit problems, particularly if they are elderly or cannot read English. In addition, extensive "hand-holding" is necessary for many clients who simply feel overwhelmed and discouraged at facing legal bureaucratic processes. If the family pays a \$15 fee, HIP will conduct a preliminary credit report, review it with the client, recommend an appropriate loan package and help him or her begin credit repair, if necessary.

The Bartow Rural Development office also receives the majority of its attendees through referrals. While its classes are advertised in local papers, the county SHIP office will direct homeowner aid applicants to them. One Rural Development agent commented that the counseling requirements for SHIP assistance "give them [the applicants] a built-in incentive." The Live Oak office is not one of the SHIP partners, but does the majority of its work with loan applicants who come in "off the street."

Rural Outreach

Central Florida

In central Florida, the incentive of direct SHIP payment assistance is usually more than sufficient to draw attendees to education classes. However, most SHIP clients are referred either by partnering lenders and housing agencies or by word of mouth; consequently, in areas where geographical distance and population diffusion prevent direct contact with lenders or housing agents, rural clients are not able to "get the word."

In the Bartow office service area, Polk is a metropolitan county; however, Hardee and De Soto are non-metro, and Hardee is a persistent-poverty area with a predominantly Hispanic population (Map 2). Consequently, in its attempt to approach these areas, HIP, Inc. has had to work in a consortium that includes bilingual GED and English classes in order to be most effective for its clients. As previously mentioned, the rural Hispanic clients and other persons who are literacy-challenged often need extensive "hand-holding" in order not to be discouraged from buying a home.

To address this challenge, HIP has been able to purchase a recreational vehicle (RV) through a donation from the Edith Bush Foundation. The RV is capable of hosting outdoor classes and also has a VCR to show educational videos. The visibility of the van attracts attention from rural residents, and the availability of a bilingual counselor provides reassurance to class attendees that they are not dealing with a remote, uncaring entity. The rural areas rely extensively on RV classes; however, the van is only able to visit two or three rural areas per week out of a five-county area.

The Florida Panhandle

The challenges of homebuyer E&C in this area are somewhat alleviated by active private lenders and USDA Extension Services. In areas with inactive SHIP offices, private banks - both regional and local - have often picked up homebuyer education where nonprofits and government agencies have left off. The USDA Extension Services are also able to teach classes and do counseling in areas where the single Live Oak Rural Development office (with four staff) is unable to reach, other than by long-distance phone calls.

There is no shortage of monetary incentive to draw people into classes. In fact, SHIP staff in Madison County did a 4,000-address mailing of leaflets advertising the availability of sizeable homebuyer assistance funds. The effort had virtually no response. The Live Oak Rural Development agent also said that SHIP staff have advertised in newspapers and on the radio that they were "giving away all this money," with the same results. The only marketing that seems to work is when a local friend or relative successfully builds or purchases a house with SHIP assistance, after which the Live Oak office will see a "spate" of referrals.

The Live Oak Rural Development agent stated that the lack of participation has been a mystery to E&C providers in the area. He speculated that apathy, lack of education and social insularity make potential clients extremely hesitant to approach any bureaucratic entity, and that perhaps

MAP 2: FLORIDA NONMETRO AND PERSISTENT POVERTY AREAS



more of a “local presence” with in-person contact would help stimulate interest and engender trust. He also testified that in some rural areas, the SHIP office “couldn’t care less” about program delivery, and banks and realtors frequently come forward to fill the gap in services. The two remote rural counties in the Live Oak service area - Hamilton and Madison - also have the highest percentage African-American population in the state (40 to 45 percent). In addition, 30-40 percent of the Live Oak office's clients are elderly and two-thirds are on some form of government assistance.

Funding

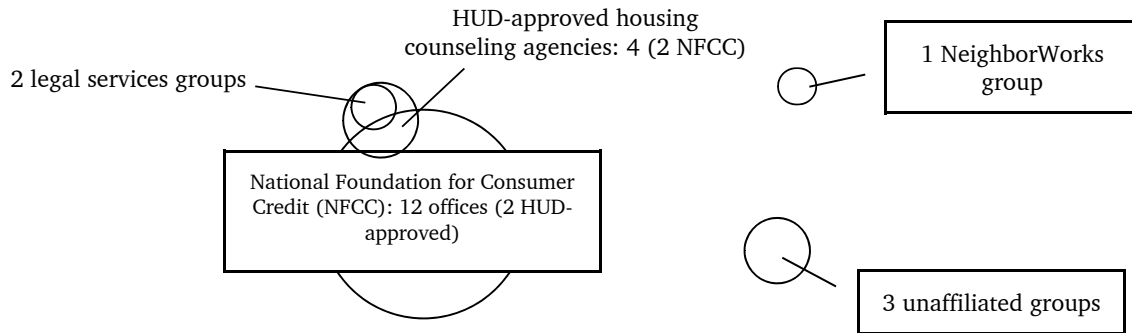
All of E&C programs described above are free of charge to the client, with the exception of HIP, Inc., which charges \$15 for an initial credit check (a substantial discount) and \$50 for a full credit check once a client has applied for a housing loan. In comparison with Texas, Florida E&C networks are much more capable of sustaining their current case load with their current level of annual funds. The Bartow Rural Development office is in the best position for sustainability, as the Polk County SHIP office gives them \$25,000 per year expressly for homebuyer E&C, and support for classroom education is free of charge for the office – the county building is free of charge, local banks provide refreshments, the Keystone Fund pays for the curriculum materials, and E&C is already a part of the Community Development Manager’s general funds. However, neither of the Rural Development offices have federal funds directly ear-marked for homebuyer education and counseling.

HIP, Inc. programs are grant-dependent, which means that they will have to re-apply on an annual basis. Although the SHIP program has a steady supply of tax funds, it will be effective at a local level only if it has viable E&C partners who can conduct classes. All of the programs need additional funds to extend their services into rural areas, particularly the Live Oak Rural Development office, which has one office with four staff to cover a seven-county rural area. Although there are SHIP offices in every county, and classes are taught by USDA Extension Services and private lenders, the Rural Development office needs thousands more dollars to establish a personal presence in rural areas and effectively communicate the programs that are available to residents there. HIP, Inc. is in the best position to do direct rural outreach with its RV; however, its staff is still limited in the number of trips and the amount of time that can be put in by the single counselor who does the outreach.

SOUTH DAKOTA

Overview

Homebuyer E&C in South Dakota is limited to eight organizations, six of which are actively involved in a partnership with the South Dakota Housing Development Authority (SD HDA).

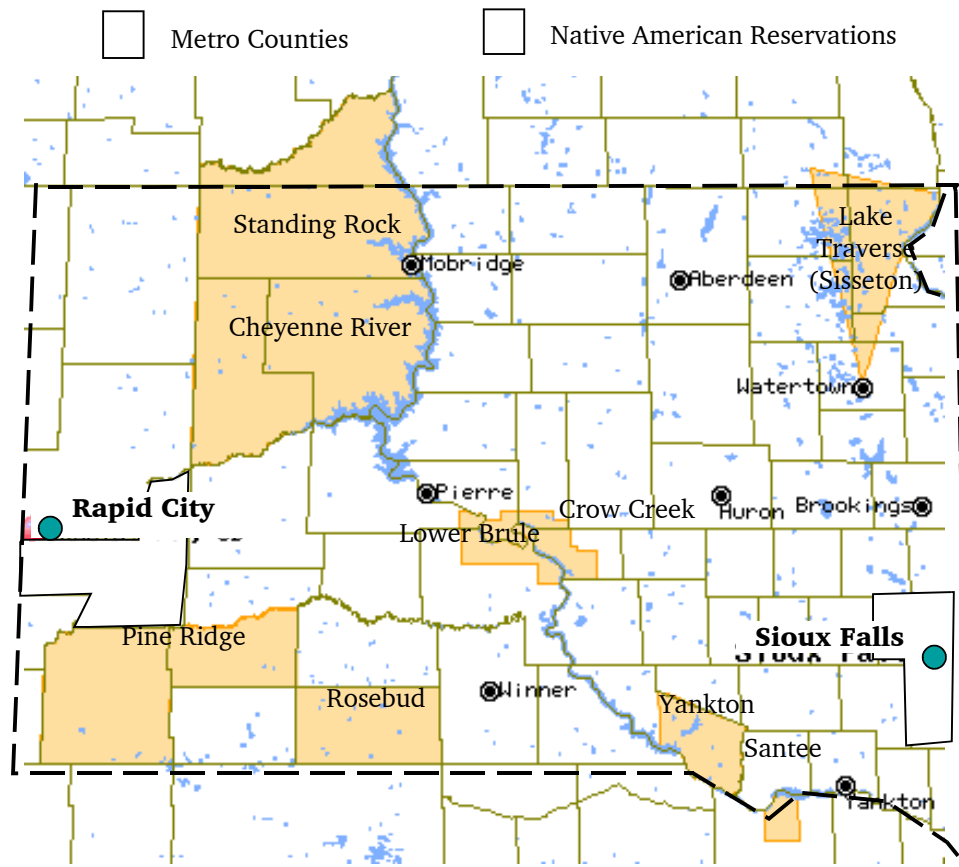


The six groups in the SD HDA partnership are divided into three regional consortia:

- △ Western Group (Rapid City area):
Consumer Credit Counseling Services (CCCS) of the Black Hills,
Rapid City Housing Coalition (RCHC) (unaffiliated), and
Neighborhood Housing Services (NHS) of the Black Hills (NeighborWorks member)
- △ Eastern Group (Sioux Falls area):
Housing Resource Center (unaffiliated) and
CCCS of Lutheran Social Services (CCCS-LSS)
- △ Huron: Huron Housing Redevelopment Commission (unaffiliated)

The partnership was made possible as recently as 1998 by a HUD grant that was given to SD HDA for \$130,000. Out of the six groups, two are HUD-approved: CCCS of the Black Hills in the Western Group and CCCS-LSS in the Eastern Group. There are two other HUD-approved groups in the state (Black Hills Legal Services and East River Legal Services); however, they are not a part of the consortia and deal primarily with education on fair housing issues.

All of the organizations are located in metropolitan counties (even though several do rural outreach) and only one (RCHC) has service to rural minority groups as a part of its mission, providing E&C to all nine Native American reservations in the state (Map 3). However, NHS of the Black Hills is planning on expanding its service area from far western Lawrence County into Butte and Meade counties. Activities of Rural Development or USDA Cooperative Extension Services were not mentioned by respondents.



MAP 3: SOUTH DAKOTA METRO AREAS AND NATIVE AMERICAN LANDS

E&C Processes and Curricula

Since nearly all the homebuyer education and counseling in the state comes out of the SD HDA coalition, the education and counseling process is roughly the same for most of the organizations involved. Even though one or two organizations may do radio or television public service announcements, the majority receive clients by way of referrals from lenders, realtors or other social service agencies. All the groups have regular classroom education sessions once a month, and nearly all use the Fannie Mae homebuyer literature as their core curriculum (bilingual material is not necessary, as the only significant minority in the state – Native Americans – are English-speaking). Nearly all class agendas feature a number of different speakers, from partnering E&C providers and Rural Development officials to private-sector financial professionals (lenders, appraisers, realtors and insurance agents). Most of the speakers bring their own hand-outs.

A few of the groups have more structured E&C cycles, such as NHS of the Black Hills and RCHC. NHS of the Black Hills has a comprehensive “full-cycle” education and counseling program that takes clients from initial prequalification counseling (particularly on credit issues), to classroom education, to downpayment assistance (after qualification), to post-purchase counseling 90 days after the home is occupied. When necessary, they also do foreclosure counseling and emergency aid.

RCHC has a highly goal-oriented, three-phase cycle. The first phase is a two-hour classroom session that gives an overview of basic homeownership concepts (pre-qualification, credit counseling, and buying a home). After the class session, RCHC will contact each attendee and attempt to bring them all back for continual individual counseling regarding the goals that they set during the class and any credit repair they may need. The third phase is a two-hour workshop with realtors, home lending officers and building inspectors on the downpayment and closing process, as well as home maintenance after purchase.

In terms of curriculum, the only significant deviation from the Fannie Mae materials is with CCCS of Lutheran Social Services (LSS), which uses a wide variety of materials. The HUD Federal Housing Administration “Homebuyers’ Education” material serves as the primary text, supplemented by an in-house, 32-page “financial fitness” handbook with hand-outs and worksheets on budgeting, credit, and other key issues. According to the CCCS-LSS housing resources coordinator, the Fannie Mae materials have proven useful for shorter, more general education sessions; however, the E&C coordinator has found them to have insufficient detail for use in the primary curriculum.

Rural Outreach

Since virtually all South Dakota counties are non-metropolitan, and more than half of the state is remote rural²⁰, the challenges of rural E&C delivery are a constant burden for the state’s six providers. The activity of private lenders has received mixed reviews from nonprofit E&C practitioners. Statewide agencies such as USDA Rural Development and SD HDA report that a

²⁰ As defined by U.S. Bureau of the Census and USDA, Economic Research Service, 1990.

wide number of lenders do educational sessions for first-time homebuyers, particularly those taking out low-interest loans. However, nonprofit E&C organizations have reported that most bank activity in their areas has been restricted to client referrals and that direct homebuyer education was too cost-intensive for too little attendance.

As with most organizations attempting to provide rural E&C services, the most common barrier for those in South Dakota has been funding for staff time and travel. However, an additional challenge has been reaching rural Native American communities. South Dakota has 132 tribes, the largest of which are the Oglala Sioux, Cheyenne River and Rosebud.

An additional barrier comes from inside the tribal lands, where non-Indian outsiders have virtually no credibility as social service providers. The only E&C provider with Native American staff is RCHC; however their office has only two part-time employees, with the rest of the work supplied by volunteers. Finally, even though many of the staff have family and relatives living on reservations, they also face distrust as urban dwellers when they enter tribal lands. Not only are there cultural differences between city and reservation dwellers, their representative social service organizations often have to compete for scarce funding.

The Consumer Credit Counseling Service organizations (CCCS of the Black Hills and CCCS-LSS) have the most extensive network of satellite offices in the state, with five offices in the Black Hills network and seven in the LSS network. Although the rural offices are very small, their staff are all NFCC-certified counselors and are capable of providing competent individual counseling on their own. They are also able to do joint counseling sessions through conference calls with the Black Hills or LSS offices, and can call at any other time to get assistance.

South Dakota HDA staff are contemplating an additional approach to rural E&C delivery, which would use video-teleconferencing to teach courses by remote. A network already set up in the state uses 20 different sites to teach college education courses. Nearly all areas of the state are within 100 to 150 miles of any site, and the only other substantial costs would be renting time on the network and coordinating delivery of curriculum materials to each site. However, there has been no funding available to begin planning as of 1999.

Funding

One state Rural Development official commented that “we’re starving for education and counseling out here.” Rural Development in South Dakota, much like any other state, does not have any money ear-marked for education and counseling, the offices are left to assist the existing nonprofit providers by volunteering to lecture at their classroom sessions and referring them to potential funding sources. South Dakota HDA has \$130,000 from HUD; however, that money must be divided up between six E&C provider groups, all of which must cover a considerable amount of territory with few staff.

The CCCS of Lutheran Social Services is having their “best year yet” in 1999, with a \$54,000 grant from HDA, a \$3,500 direct grant from HUD, a \$5,000 community development grant, and \$30,000 from their own fund-raising (which is extremely time- and labor-intensive). Direct grants from HUD have been declining rapidly from 1997-1999, and CCCS-LSS went from a \$24,000 grant in 1997, to \$12,000 in 1998 down to their \$3,500 grant in 1999. The staff at

CCCS-LSS predict that the HDA grant will likewise decline over time.

NHS of the Black Hills has a 1999 budget of nearly \$100,000: \$90,000 from the Neighborhood Reinvestment Corporation (NRC) (\$50,000 for outreach and \$40,000 for operations), \$8,600 from HUD, and a \$7,000 grant from USDA RHS. Nonetheless, all of the funds above (with the exception of the RHS money) have only become available as of 1999. Without the sizeable money committed through the NRC "Campaign for Homeownership 2002" program, virtually none of the NHS services would be possible.

The Rapid City Housing Coalition has an average annual budget of \$70,000, the vast majority of which consists of a patchwork of small grants from religious organizations such as the Campaign for Human Development. Roughly \$20,000 of the budget is earmarked for education and counseling outreach (RCHC also provides construction and rehabilitation services, as well as conducting education for Native American communities on empowerment skills-building). In 1996, RCHC received a three-year start-up grant from RHS for a total of \$50,000; however, that grant has run out and one staff member has said that "we're hanging on by our fingernails."

Overall, providers of homebuyer education and counseling in South Dakota state that they are having one of their best years in terms of funding; however, the vast majority of those funds have only come in as of Fiscal Year 1998 and all of the money is grant-based. The organizations interviewed all estimated that they would need \$100,000 to \$130,000 per year in order to sustain their current activities, much less to do sufficient outreach into rural areas.

CONCLUSION

The State of Rural Homebuyer Education and Counseling

Rural homebuyer education and counseling – at least in Texas, Florida and South Dakota – has a very tenuous existence. Texas and Florida have very impressive numbers of E&C provider groups on a state-wide level. However in Texas, the vast majority of E&C providers for rural homebuyers are unaffiliated, isolated, and struggling for solvency. In Florida, what would otherwise be a strong state-wide E&C program – SHIP – dwindles in rural areas due to lack of partnering organizations. In South Dakota, there are only six homebuyer E&C providers to cover a state with 75,896 square miles of land area and roughly ten people per square mile.

In terms of rural outreach, the most impressive network by far is the National Federation of Consumer Credit. While there may be anywhere from two (South Dakota) to 11 (Texas) core CCCS offices, each office is connected to several – sometimes dozens – of satellite offices spread throughout the state that offer individualized debt consolidation and credit repair counseling on an individual basis. There are 137 satellite offices in Texas, 108 in Florida, and 12 in South Dakota, and they typically comprise the majority of HUD-approved providers. However, the degree to which CCCS groups offer homebuyer education classes depends upon the budget of the individual group and the level of demand in the group’s area. Consequently, rural CCCS groups rarely offer regular classes, and when they do, not all of them are geared specifically toward homebuyer issues.

Holistic Programming and Follow-Up

The organizations with the most comprehensive E&C programs – offering both education and counseling in a standardized format – are the Neighborhood Housing Service groups. Affiliated with the Neighborhood Reinvestment Corporation, all of these groups do “full-cycle” E&C that includes prequalification counseling, classroom education, downpayment assistance, and post-purchase counseling 90 days after home occupation.

Another program that bears mentioning for its comprehensiveness is the statewide SHIP network in Florida. In order to receive downpayment and closing cost assistance (“free money,” one Rural Development agent called it), all applicants must attend a rigorous series of classes, set their own budget and credit goals, and report regularly to their county SHIP office on their progress (the office proactively calls all attendees bi-annually).

Finally, the Rapid City Housing Coalition has a highly structured process that also requires goal-setting for class attendees (an initial two-hour session). Attendees are called after the session, with the goal of bringing 100 percent of them back for counseling regarding their goals, any credit repair that they need, and the next steps they need to take. After credit repair has enabled clients to prequalify for a loan, they have a final workshop with realtors, lenders and building inspectors. This program is truly remarkable for a group that has only two part-time paid staff, operates on a \$70,000 per year budget, and serves all nine Indian reservations in South Dakota.

Rural Innovations

A few innovative strategies for rural outreach in homebuyer E&C are currently being formulated. In Florida, HIP, Inc. was able to purchase an RV with money from a local foundation, which serves as a mobile education and counseling office for surrounding rural areas. The RV is equipped with a tarp and folding chairs to hold outdoor education sessions, in addition to a VCR for small-group viewing. The RV is readily visible, with large lettering on the side, and the counselor that does field visits is bilingual.

One other approach still being conceptualized by the South Dakota Housing Development Authority is using telecommunications to teach rural homebuyer educational classes by remote broadcast. South Dakota, in fact, already has a 20-site network that is currently being used to teach college courses. While such an approach could be very cost-effective, with the major expenses being curriculum coordination and air-time rental, SD HDA would still need a sizeable start-up grant to pursue the idea in earnest.

Funding

Even though 1999 has been the best year yet for many organizations, virtually all the funds for all the groups and networks in this study are grant-based. The only group with ongoing, sustainable funding is Florida SHIP, which uses state tax funds. The Texas-wide TSHEP program, in contrast, is planning to launch a comprehensive homebuyer E&C program with a one-year HUD grant that was received only in 1998 or 1999. Even though almost half the rest of the funds will come from the Texas State Housing Trust Fund, the initiative would be crippled without HUD funding.

Many national lenders have contended that one of the best ways to insure wide-spread and adequate homebuyer E&C is through partnership with local nonprofits. Unfortunately, many of the local nonprofits studied here are teetering on the brink of insolvency. Even those that are funded comfortably for 1999 state that they will not be able to do the kind of rural outreach that they need or to insure that their funding will be there the next year.

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Education and counseling (E&C) for prospective low-income homebuyers has become increasingly popular with many lenders, both public and private. Consistent national E&C standards have also become particularly important to affordable lending providers and loan guarantors, as government programs for affordable housing are rapidly giving way to public-private partnerships. However, national lenders are also increasingly concerned that state and local E&C networks may not be in place with the capacity and sustainability to deliver these programs to their borrowers, especially in rural areas.

In this research project, the Housing Assistance Council (HAC) has conducted a preliminary examination of the existing E&C organizational capacity in rural Texas, Florida and South Dakota. For each state, the report describes what rural homebuyer E&C networks are in place, their characteristics, and how they are funded.

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