

# **HOUSING COUNSELING IN RURAL AMERICA**

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

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## INTRODUCTION

Housing counseling programs of various types have become increasingly popular in rural areas as well as in major cities among public agencies, private lenders, and private nonprofit entities such as local housing assistance organizations. Counseling, broadly defined, can include at least three types of activities: pre-purchase counseling (covering topics such as how to find a home and apply for a loan, credit improvement, and financial management), other types of homeownership counseling (such as home maintenance training or default counseling), and tenant counseling (such as mobility or tenant rights counseling). These programs may be offered by local public and private nonprofit organizations (sometimes approved by HUD as housing counseling agencies), by banks or savings and loans institutions, by local nonprofit lenders, and by other entities interested in assisting home purchasers or renters.

While several studies over the last 25 years have examined the effectiveness of some types of housing counseling, none of these studies is very useful for determining how counseling functions in rural areas. None of them included places outside major metropolitan areas. Furthermore, each study suffered from methodological flaws that preclude generalization from its findings.

Anecdotal evidence indicates that housing counseling in rural areas is different in several ways from counseling in cities. For example, while transportation is a problem for many lower-income persons in all areas, a rural resident without a car has no public transportation alternative to enable him or her to attend a counseling class. In addition, there are fewer social service agencies and other resources in rural areas. Certain special populations with special needs are more likely to be present in rural areas, such as Native Americans living on trust land where mortgages were all but unknown until very recently. Close personal relationships are important in rural areas, including in rural counseling efforts. Rural areas are more likely to suffer from persistent poverty, and rural residents have lower incomes than urban dwellers, leading to more credit problems, less formal education, and less experience with the banking system.

The sources of support for counseling efforts, and thus possibly their emphases, are in some ways different in rural areas as well. While banks and savings and loan institutions fund numerous counseling programs nationwide, these programs seem to be less common outside metropolitan areas (with at least one notable exception, rural Delaware, which is discussed in greater detail below). Conversely, the Cooperative Extension Service offers housing counseling in some rural places, and a limited number of rural areas will benefit in fiscal years 1995 and 1996 from a pilot homebuyer education program of the U.S. Department of Agriculture's Rural Housing Service.

This report examines the types of housing counseling currently being used for low-income residents of rural areas in light of past studies of counseling's effectiveness. First, a literature review establishes the context for this examination. The second section of this report describes some important aspects of rural housing counseling programs, with special attention to their uniquely rural attributes. Third, three in-depth case studies are presented. Finally, the report

discusses possible ways of measuring the success of rural housing counseling programs.

## REVIEW OF THE LITERATURE

The Housing Assistance Council has been unable to locate any studies of housing counseling programs in rural areas, or any studies (of any geographic areas) that include tenant counseling.\* There are a number of studies of pre-purchase and post-purchase homeowner education and counseling programs for low-income persons in major metropolitan areas. The most recent report presents interim results of an ongoing program that covers both urban and rural areas, but the results are not reported separately by type of geographical area. Generally, the existing studies indicate that counseling has some positive effect. They measure very different effects, however, ranging from home purchase rates, to reduction in delinquency and default rates, to participants' perceptions that they have learned useful information. Some studies find that counseling helps only slightly, while others find major improvements. They vary in methodology as well, and each suffers from one or more methodological flaws. (These issues are reviewed in more detail in the appendix. The studies' flaws are not outlined in the following summary but should be borne in mind when considering the reliability of the results summarized below.)

### *Studies of Pre-Purchase Programs*

The earliest identified study, conducted in San Francisco in the late 1960s, examined a three-year experimental program that provided counseling and two years of financial assistance to upwardly mobile low-income families using HUD's Section 235 program.<sup>1</sup> The study found that assistance in purchasing a home (bargaining with sellers, shopping for lenders, and the like) was positively correlated with homeownership, while job counseling and financial management counseling were not. The program did increase the rate of homeownership among participants as compared to a control group who did not receive counseling or subsidies.

In contrast to the San Francisco findings that financial management counseling did not help families to become homeowners, another homeownership program at about the same time period found many recipients of pre- and post-purchase counseling on financial planning and credit issues believed the information was helpful.<sup>2</sup> This program, and the written report on it, were very different than the San Francisco experiment. In 1971 researchers at North Carolina State

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\* At least three studies are underway at the time of publication of this report, and at least two of them include nonmetropolitan areas. First, a study is in progress investigating the effectiveness of pre-purchase homebuyer education programs under a contract or grant from Fannie Mae's Office of Housing Research. Researchers presented their background research at Fannie Mae's annual housing conference in May 1995. Second, six local organizations in the northwestern United States with funding from the Northwest Area Foundation have come together as the Mortgage Foreclosure Prevention Program Collaborative, whose preliminary findings are summarized later in this report. Both the Fannie Mae and MFPP Collaborative projects include counseling efforts in both urban and rural areas. Finally, one counseling agency staffer interviewed was working with a Ph.D. candidate who is researching counseling, but was unwilling to put the Housing Assistance Council in touch with her because she had previously asked him not to share her results with others. The focus and scope of that research are unknown.



University undertook a descriptive review of the functioning of HUD's Turnkey III program from December 1969 through June 1971 in eight North Carolina cities, focusing on Winston-Salem. The program moved residents of public housing to newly constructed subdivisions of single-family homes which they rented and would eventually purchase. The study's findings did not attempt to measure program success by number of purchases, delinquencies, or defaults. Instead, the study asked participants and counselors for their opinions of the program.

Counseling was provided in three distinct components: required pre-purchase sessions, optional monthly group sessions during the first year after occupancy, and required creation of a homebuyer's association in each subdivision. Forty percent of interviewees said the pre-purchase session on budgets, finance and credits was the "most helpful" pre-purchase topic. The second most popular "most helpful" session was on decorating and refinishing furniture, identified by 20 percent. A large majority (86 percent) reported that the counseling program in general was helpful or very helpful to them, and almost as many (85 percent) said they would turn to the counseling staff when they needed additional counseling, rather than to the local housing authority or the homebuyer's association. Three-quarters could suggest no improvements in the program, while others requested more detailed information on budgeting, added training in leadership and guidance, and information on upholstering.

Program staff reported that "individual face-to-face counseling" appeared to be essential in order to convey information successfully, and that hands-on programs were more popular and led to better retention of information than classroom sessions. In addition, they postulated several reasons for the participating families' poor attendance at the voluntary post-occupancy sessions: too much time may have been allowed to elapse between the pre-occupancy and post-occupancy sessions, there may have been too little emphasis on the importance of continuing counseling, sessions were announced by formal letters rather than personal contact, child care was not provided, and, finally, program staff found that participants with low self-esteem regarding their ability to succeed in the program -- those most in need of assistance -- were the least likely to participate in voluntary sessions. Other possible problems with those sessions were discovered when the homebuyer's associations were formed; association officers pointed out that they had not been involved in structuring the post-occupancy counseling sessions and were not initially asked to help increase attendance.

The NCSU report was not intended to provide a quantitative measurement of the success of housing counseling, and cannot be interpreted in the same way as studies that did attempt such measurement. As will be seen, however, this study's conclusions were similar in many ways to the findings of later studies, and to the experience reported by persons administering rural housing counseling programs in the 1990s.

University of California researchers in 1972 did attempt to provide a numerical measurement of the success of pre-purchase counseling, without obtaining useful results.<sup>3</sup> Researchers compared data for 66 clients applying for federally insured mortgages under HUD's Section 235/237 housing program and receiving counseling by HUD-certified counseling agencies to data for 33 who had been rejected by counseling agencies as unable to benefit from the program.

Researchers found no statistically significant differences between counselees and rejectees in budgeting, planning, and saving, but did find statistically significant differences in purchasing behavior. Counselees were more likely to own homes and major appliances, while rejectees were more likely to own cars and to owe more for their cars. “Success” rates -- measured by the proportion of counseling recipients certified for FHA insurance and by delinquency rates -- varied radically among counseling agencies nationwide.

A HUD regional office study in 1974 found that Section 235 purchasers in Fresno, California who received pre-purchase counseling had statistically significantly lower rates of foreclosure, default, and late payments than those not counseled.<sup>4</sup> HUD staff reviewed HUD records for a small group of program participants covering the period from January 1970 through August 1974. (The results related to delinquency and default counseling are summarized below.)

Using different measurements, a 1974 study of 235/237 purchasers by the Organization for Social and Technical Innovation, Inc. (OSTI) concluded that voluntary pre-purchase counseling seemed to prepare participants for ownership. They purchased homes in better condition, improved their homes at less cost, and maintained their houses and their mortgages better than uncounseled purchasers although the latter generally bought newer homes and experienced larger increases in their incomes. They fared better in the area of consumer protection as well, having less severe problems with the condition of their homes and being more knowledgeable about physical faults in their homes at purchase than uncounseled purchasers despite buying older units.

OSTI also found differences between default and “mortgage failure” in the voluntary counseling group. Default was likely to be caused by uncontrollable factors like the loss of a job or a major illness that could not be solved by pre-purchase counseling. Foreclosure, on the other hand, although tending to occur after a period of default, was more often associated with problems in housing conditions -- problems that an educated homeowner might be better prepared to solve.

OSTI also interviewed counseled homeowners regarding what information they had found most helpful, and asked uncounseled buyers what they would have found helpful. The most useful types of assistance cited were credit counseling; information about the implications of ownership, purchase procedures, and the selection and evaluation of a house; the existence of “advisory resources” purchasers could call whenever they had a question on any subject; assistance in searching for a house to buy; and receiving independent inspection and appraisal services and legal services. OSTI found these para-professional services “most critical to counseling’s role in promoting more effective ownership programs.” While few of the agencies studied had the staff or funds to provide post-purchase assistance, interviewees said they needed assistance with repair, legal services to deal with issues like construction defects, and information on ownership matters such as tax benefits.

While OSTI identified benefits for those receiving pre-purchase counseling, it found that the usefulness of such counseling was limited by a low rate of participation. Pre-purchase counseling was provided on a voluntary basis to purchasing 235/237 families, only 3 percent of

whom made use of it.

Another study of borrowers using the Section 235 mortgage insurance program, carried out in the late 1970s by Abt Associates, also found extremely low participation rates.<sup>5</sup> Because participation in the pre-purchase counseling program was voluntary, the study devoted a great deal of attention to an extensive outreach program, but found that very few (an estimated 5 percent) of eligible purchasers enrolled. While the study was motivated by concerns about defaults and foreclosures among Section 235 borrowers, the study period extended over only 15 months, so was limited to examining homeseeking and purchasing behavior. The results were inconclusive, however.

Study participants were divided into three categories. Some received an information packet, but no counseling sessions; some received group counseling sessions; and some received one-on-one counseling, including “advocacy” activities such as housing inspections and attendance at closings. The package of written materials was highly rated among participants in all three categories.

There was only one statistically significant identifiable difference in homeseeking or buying behavior between the three groups during the study period: participants who were offered group counseling (whether or not they used it) were less likely to purchase homes than those who were offered individual counseling or those in the control group. It is not clear, however, why this was the case, or whether it was a desirable outcome. The biggest difference between the group counseling and the individual sessions was presentation to group participants of a more structured, uniform curriculum emphasizing affordability and the process of deciding whether to buy. Therefore those receiving group counseling may have made better decisions about whether purchasing was appropriate for them at the time, or they may have been unnecessarily intimidated about the seriousness of the decision.

### ***Studies of Delinquency and Default Programs***

As mentioned above, an early study of delinquency and default (D&D) counseling was undertaken by a HUD regional office examining records of default and foreclosure among Section 235 purchasers in Fresno, California, for the period from January 1970 through August 1974.<sup>6</sup> While pre-purchase counseling seemed demonstrably successful, purchasers receiving D&D counseling showed no statistically significant difference in foreclosure or default rates compared to non-counseled purchasers with at least one default.

Unlike the Fresno study, three later studies did find statistically significant results in HUD’s Concentrated Default Counseling Program, which provided D&D counseling to Section 235/237 mortgagors in 19 cities. First, in 1974 the Organization for Social and Technical Innovation, Inc. (OSTI) compared data from counseling participants in six of the 19 D&D locations to random samples of defaulting mortgagors in those six cities as well as 11 other non-program cities.<sup>7</sup> HUD rejected this study, and undertook two other studies (summarized below) to replace it; nevertheless, like other flawed studies, it is included in this literature review so that current and

future researchers may learn from it.

OSTI tracked changes over the course of a year in the mortgage status of Concentrated Default Counseling Program participants. Default and mortgage failure rates were only marginally lower among defaulting owners (apparently including both counseled and uncounseled owners) in the program cities than in the non-program areas. Since the program was initiated only in areas with high rates of delinquency and default, however, OSTI concluded that it would be appropriate to use the non-program areas' failure trends as the baseline against which to compare the program cities. That calculation led to the conclusion that mortgage failures in the program areas were reduced by 11 percent.

Because HUD was concerned about serious problems with the OSTI study, particularly the lack of socioeconomic data, it undertook another review of the D&D program in 1974 and 1975. In a 1975 report entitled *Counseling for Delinquent Mortgagors: An Evaluation*, HUD researchers concluded that Section 235/237 borrowers receiving D&D counseling were significantly more likely to be current on their payments and less likely to lose their homes to foreclosure.<sup>8</sup> Although the results varied among the four cities studied, the proportion of mortgagors current on their payments was at least 10 percentage points higher among those referred for counseling, and the proportion experiencing foreclosures at least 16 percentage points lower.

Another HUD study, published in 1977 with the title *Counseling for Delinquent Mortgagors II* but unrelated to the 1975 report of the same name, attempted again to correct some of the flaws in the OSTI study and in the 1975 analysis.<sup>9</sup> Like the 1975 HUD study, it matched pairs of Section 235 borrowers referred and not referred to counseling. It used data in five different cities for 1,500 homeowners and ten HUD-approved counseling agencies. Counseling was offered to every other borrower on an alphabetical list, thus establishing a random sample and control group.

The earlier *Counseling for Delinquent Mortgagors: An Evaluation* study was the first to compare all mortgagors *referred* to D&D counseling -- whether or not they actually *received* counseling -- with those not referred. The situation of the not-referred control group was assumed to represent what would have happened if the counseling program had not existed. The results indicated that those who were referred for counseling but could not be reached by counseling agencies actually experienced fewer delinquencies and foreclosures than those who were referred and counseled. Researchers speculated that those who were referred but did not participate in counseling were those who knew they could bring their payments current, or who were "moonlighting" or involved in other activities likely to assist them in becoming current. Others who refused counseling seemed to be those for whom foreclosure was inevitable.

*Counseling for Delinquent Mortgagors II* again compared those referred and not referred for D&D counseling. While only one-fourth of those referred to counseling were actually counseled, researchers believed the referred/non-referred comparison was appropriate for several reasons. First, since some persons will always decline counseling, including them would generate a more realistic measurement of experience if everyone were referred to counseling. In

addition, the referral itself might have had some effect, and might have spurred some homeowners into solving their payment problems. Finally, if there were some common pattern of characteristics among those who were referred but did not accept counseling, the same pattern would have been present in the non-referred group, so eliminating those persons from the referred group would bias the analysis. For example, borrowers with less severe problems might be less likely to participate in counseling.

Like earlier studies, *Counseling for Delinquent Mortgagors II* found D&D counseling had mixed results. Six to twelve months after the completion of counseling, the non-referred group had higher rates of delinquency and foreclosure, but fully 30 percent of the referred owners were farther behind in their payments than they had been before counseling. The effectiveness of counseling (measured by foreclosures, currency of payments, and number of months behind in payments) varied among the five cities studied from 24 percent to 51 percent effectiveness. The ten agencies showed effectiveness rates from a low of negative 65 percent to a high of 65 percent. While researchers could not separate city-related factors from agency-related factors, it is interesting to note that the lowest and highest rated agencies were both in Los Angeles. The factor most likely to impact on outcome was mortgage age: in the 1975 HUD study most defaulting owners had had their mortgages for about three years, but in this study they had maintained them for about five years, so their defaults were likely to have resulted from more serious problems.

This study seems to have been the first to examine the effectiveness of different techniques for D&D counseling. It evaluated the ten agencies studied by their use of in-home counseling (as opposed to office counseling), their provision of debt collection services, and their use of referrals to other social service agencies. Home counseling, which was assumed to provide a more relaxed atmosphere -- at the expense of adding distractions, "reduced professionalism," and greater travel expenses -- did lead to lower foreclosure rates and greater cost-effectiveness. The three agencies with the best records emphasized home counseling. Provision of debt collection services, which gave counselors better knowledge of homeowners' overall debt situation, and obtained greater support from other creditors, did not affect foreclosure rates. Only two of the ten agencies referred homeowners to other social services; one rated below average in foreclosure reduction, and the other was successful but not as successful as some without referral services.

This study, following an example set by OSTI and the first *Counseling for Delinquent Mortgagors* HUD study, also attempted to measure the cost-effectiveness of D&D counseling. OSTI had multiplied the annual volume of mortgage failures expected by the 11 percent reduction in failures and the administrative cost per failure. That estimate of savings far exceeded the annual cost of the counseling program in the six areas OSTI studied, so researchers concluded that D&D counseling was cost-effective, and would have been so even if the reduction in mortgage failures were less than 11 percent.

The first *Counseling for Delinquent Mortgagors* HUD study undertook a more complicated calculation scheme involving three models. First, and simplest, one could compare the cost of

counseling to the foreclosure costs avoided. This yielded a substantial benefit per referral. The second model added the cost of the continued subsidy payment to homeowners avoiding foreclosure, and concluded there was a small cost per referral. Both these models focused only on counseling's impact on the HUD budget. The third method included costs and benefits to mortgagors, mortgagees, and society at large as well, but could not yield a dollar estimate because items like the costs and benefits to society at large could not be quantified. Researchers believed, nevertheless, that the "net result" of counseling would be beneficial if measured this way. (The costs and benefits identified by HUD researchers are discussed in greater detail in the final section of this report.)

The second HUD study used the same three models, with slightly different results. The first and second methods (considering impact on the HUD budget only) indicated that counseling was cost-effective overall, but at a lesser savings per referral than the earlier study found for Method 1. The third method showed benefits exceeded costs as well, if it was assumed that nonquantifiable benefits were greater than nonquantifiable costs. Cost-effectiveness varied widely by city and by agency, indicating that different settings and/or different approaches affected outcomes.

D&D counseling was found to be cost-effective in a 1980 study by the National Urban League as well. This two-year examination of the effectiveness of housing counseling in HUD's Home Mortgage Assignment Program examined 898 homeowners in five cities with high levels of D&D counseling and two cities with little or no such counseling.<sup>10</sup> All participating homeowners applied to HUD to have their mortgages assigned to HUD. Some received counseling in conjunction with the program. Counseling was found to have no effect on HUD's acceptance of assignments; the same proportion of counseled and non-counseled applicants were accepted. Counseling could not affect most of the factors that determined whether applicants were accepted for assignment, however; acceptance depended upon the mortgagor meeting the legislatively mandated acceptance criteria. The study found that the length of time spent in counseling did correlate positively with avoidance of foreclosure. Despite the study's less than impressive findings about the effectiveness of counseling, when cost-effectiveness was measured, using a calculation essentially the same as HUD's Method 1 in its *Counseling for Delinquent Mortgagors* and *Counseling for Delinquent Mortgagors II* studies, researchers concluded that a short-term nationwide counseling program would be cost-effective and a long-term program even more so.

Another study of D&D counseling, published in 1980 by Morgan Management Systems, found that counseling costs (as well as the amount of time spent with defaulting mortgagors) varied greatly among agencies studied, but did not attempt to calculate counseling's cost-effectiveness. The report focused on the impact of default counseling and the effectiveness of particular types of counseling in a demonstration program carried out in Detroit from 1976 to 1977.<sup>11</sup>

Like the second HUD study, this analysis found in-home visits correlated strongly with success. The agency with the greatest success in helping clients become current in their payments was a unit of the local government that preferred in-home visits and worked to gain homeowners' trust.

In addition, it used a “directive” counseling method. Despite the positive record of this particular agency, the study concluded that group sessions were effective for dissemination of “routine information.”

Unlike other studies, however, Morgan Management’s findings showed that three years after the demonstration ended the foreclosure rates were 31 percent for those referred to counseling but only 20 percent for those not referred. Their default rates were about the same.

The Detroit study was the only one that compared homeowners’, counselors’, and bankers’ explanations of the causes of defaults. Homeowners tended to attribute defaults to circumstances beyond their control, while counselors and bankers most often cited poor money management and failure to understand the responsibilities of homeownership. Morgan Management found that only 2.5 percent of respondents cited the condition of the home at the time of purchase as the primary cause of default; this could be consistent with OSTI’s finding that, although foreclosure was often related to housing being in poor condition, default was more likely to be related to loss of a job or a major illness. (The phrasing of Morgan Management’s question, which related to the condition at the home at the time of purchase rather than at the time of default, may have affected responses as well.)

Early findings from a study currently underway also seem to indicate that the cause of default is important in determining how to prevent foreclosure.<sup>12</sup> The Mortgage Foreclosure Prevention Program (MFPP) Collaborative, created in 1991, includes six local organizations in the northwestern United States providing foreclosure prevention services to low- and moderate-income homeowners. Short-term results indicate that counseling and advocacy assistance are helpful in preventing some foreclosures (41 percent), and that when combined with financial assistance they are extremely successful, preventing foreclosure for 95 percent of program clients.

MFPP’s financial assistance has been used most often to provide relatively small loans (averaging \$2100) to bring payments current, with homeowners agreeing to repay the MFPP loan when their financial circumstances permitted. The small loans may be effective because the most common reasons for MFPP homeowners falling behind in their payments are financial problems beyond their control, so in effect the small loans buy them time to catch up as they recover from those financial problems. Financial assistance might also be effective because it is provided to families for whom it appears to be the best way to succeed: those who have the capacity to

resolve their problems and resume payments in the near future, and who are committed to resolving their problems.

MFPP's early conclusions also include a list of steps found to be necessary to make counseling effective in preserving homeownership:

- △ early detection of mortgage delinquency;
- △ early phone call from the mortgage holder as a follow-up to the first mailed notice;
- △ assessing the reasons for delinquency;
- △ managing the crisis through advocacy and counseling; and
- △ managing finances through budget counseling..

### ***Summary***

Overall, the literature includes at least 11 studies of housing counseling. Their methods and results demonstrate no consensus. The studies were conducted differently, measured counseling's success in a variety of ways, and calculated its cost-effectiveness in several different ways.

Six reports concerned pre-purchase counseling. They examined widely varying factors to try to examine counseling's impact: three considered purchase rates, three measured participants' beliefs about the helpfulness of the counseling they received, and one or two each looked at homeseekers' search strategies, types of homes purchased, condition of homes purchased, savings rates, purchases of items such as appliances and automobiles, qualification for FHA insurance, delinquency rates, late payments, and foreclosures. Three studies examined participation for voluntary programs, and all found that participation rates were extremely low. Only one study (Fresno) reported positive results from pre-purchase counseling on all measurements used, and only one (San Francisco) concluded that counseling had a neutral impact on all measurements used. Four (North Carolina State University, University of California, Abt, and OSTI) concluded that counseling had some positive results and some neutral or negative results. Two (San Francisco and OSTI) also identified some positive results attributable to active assistance that supplemented counseling.

Two of the pre-purchase studies considered the results of different types of counseling. North Carolina State University counselors told researchers that "individual face-to-face" and hands-on counseling were more effective than classroom presentations. The Abt study was unsuccessful in identifying differences between group and individual counseling, but did report that all participants believed the written materials they received were helpful.

Default and delinquency counseling was the subject of seven of the published studies (this includes two that covered both pre-purchase and D&D counseling efforts). All of them measured foreclosure or assignment rates, and most examined delinquency rates. One (*Counseling for Delinquent Mortgagors II*) also considered how many months late were participants' payments. Three (OSTI, the first *Counseling for Delinquent Mortgagors*, and



MFPP) found D&D counseling had only positive results, two reported only neutral findings, and two found some positive and some negative or neutral results. (The latter included Morgan Management's calculation that short-term foreclosure rates were actually higher among owners who received counseling than among those who did not.)

While none of the studies of pre-purchase counseling examined its cost-effectiveness, four of the D&D studies undertook these calculations. Three (OSTI, *Counseling for Delinquent Mortgagors II*, and the National Urban League) determined counseling was cost-effective, while the first *Counseling for Delinquent Mortgagors* study concluded it was cost-effective under two of the three measurements applied. Two of the D&D studies also compared the efficacy of different types of counseling. Both (*Counseling for Delinquent Mortgagors II* and Morgan Management) concluded that in-home counseling was the most effective.

Researchers are not alone in their lack of consensus about how best to approach the question of quantifying counseling's success. As discussed below, counselors and others involved in rural counseling efforts set forth similarly varied suggestions as to how best to measure the impact of counseling. They do, however, express strong consensus about the results of any measurement; while the majority (but not all) of the studies summarized above identify some (but not universally) positive impact attributable to counseling, those working directly with rural housing counseling are significantly more definitive in their statements about the usefulness of their programs. In addition, as will be seen, they emphasize some different aspects of counseling's success than researchers do.

## **CURRENT HOUSING COUNSELING PROGRAMS IN RURAL AREAS**

To compare the findings of the existing urban studies with rural reality, the Housing Assistance Council made an effort to obtain information from a wide variety of counseling providers in a variety of rural areas across the country. Very little data is available to measure their success using the types of analyses employed by the studies summarized above. By their own standards, nevertheless, rural counseling agencies are quite sure that counseling works. The bases for their conclusions are described in this portion of this report.

The information presented in this section is based on a number of informal telephone conversations with rural housing organizations nationwide and on the three in-depth case studies presented below. There is no way to ascertain whether the organizations contacted were representative of all rural organizations providing housing counseling services. This information is descriptive, therefore, and may or may not be an accurate summary of all rural housing counseling.

There is also no way to determine whether rural counseling is quantifiably different than urban counseling. Apparently no catalog exists of current housing counseling efforts of all types, though some efforts have been made to collect addresses of organizations offering certain types of programs. Fannie Mae has compiled a directory of organizations offering counseling programs. Freddie Mac surveyed 50 agencies offering homebuyer education programs and reviewed the programs of 26 providers.<sup>13</sup> USDA knows which Cooperative Extension Service offices offer counseling, and HUD knows what agencies are HUD-certified counselors.

Conversations with many persons involved in housing counseling in urban and rural areas leave one with the impression that the wide variety of types of programs offered in rural areas, and discussed in this report, are representative of those available in metropolitan areas nationwide as well, with two possible exceptions. First, no rural agencies contacted in the course of this study were undertaking home equity conversion counseling. Second, it is possible that, overall, rural agencies are less likely to provide classes and more likely to provide one-on-one counseling than urban organizations are. There is no hard evidence to prove or disprove this impression, however. And, while the *types* of programs may be the same, their content or counselors' approach may be different for reasons discussed in greater detail below.

### ***Urban-Rural Differences***

As a preliminary matter, it is useful to note some urban-rural differences. In many ways, counseling low-income people in rural areas is no different than counseling those in major cities. Credit management issues are a major concern in both places, for example. Long-time renters are often uncertain about preventive maintenance, regardless of the area they live in. Many low-income households are headed by single women in both urban and rural areas, so counselors in both must deal with clients' child care problems. As one counselor put it, however, "Rural problems are not just urban problems on a smaller scale." Rural counselors -- and rural residents who might benefit from counseling -- must face some uniquely rural issues, and rural counseling

programs are designed to account for these differences. In fact, one person interviewed for this report suggested that counseling may well be more useful in remote areas than in cities, because in her experience persons living in rural areas need more assistance.

Geography, for example, presents specific challenges in rural areas. The population targeted by a counseling program may be spread over one rugged county, several large counties, or an entire Indian reservation. Public transportation is virtually nonexistent, so car trouble or sharing a car with a household member working on evenings or weekends is more likely to interfere with counseling session attendance in a rural area than in a city. As discussed below, many counselors find it essential to visit participants, but their transportation costs and time to do so are much greater in rural areas. In short, the economies of scale present in a densely populated urban area are unlikely to exist in rural areas, given the relatively low population densities, the greater costs for travel by participants and counselors, and the lower number of people a counselor can reach in a given time period.

On the other hand, smaller populations give rural counseling programs one of the classic advantages of rural life: close personal relationships. Studies of urban programs that considered the advantages of different types of counseling found that individualized attention worked best, and rural cultures value individual interaction highly. Rural housing counselors get to know their clients well. Those who provide pre-purchase counseling in conjunction with specific loan programs often provide informal post-purchase counseling as well because the borrowers call them with questions. In addition, at nonprofit organizations with loan funds, those who service rural loans are responsible for relatively few loans (between 20 and 300 at organizations contacted for this study), so they can monitor borrowers' payment performance closely and establish personal contact with a borrower immediately when a payment is late, thus reducing the chances that delinquency and default intervention will come too late to be useful.

Rural economies are often different from those of urban areas, as well, in ways that may impact housing counseling. Rural areas are more likely to be dependent on a single large employer or on one type of business like coal mining or citrus orchards. When that sector of the economy declines, the entire area reels. In addition, many rural areas suffer persistently high unemployment and poverty rates. In such a situation it may be more difficult for a household to recover from loss of a job, so a counseling agency may find it more difficult to assist them, either pre-purchase or post-purchase. (This concern, suggested by a housing authority director interviewed for this study, is echoed in OSTI's 1974 urban finding that more defaulters lost their homes in areas with high unemployment than in places with low unemployment.)

While purchase prices for homes are often lower in rural areas than in cities, incomes are lower as well. Those who counsel and lend to both urban and rural residents in Delaware cite income differences as an important factor intensifying the need for financial counseling for rural Delawareans. Lower incomes tend to mean more credit problems, less formal education, and less (or no) experience with checking accounts. In at least some areas, such as rural Kentucky, lower incomes also mean that some counseling clients do not have telephones and therefore are harder to contact.

The resources available for counseling in rural areas are different as well. First, some rural areas are not served by housing organizations or counseling agencies, while undoubtedly every metropolitan area has more than one such entity. Even where rural housing counseling services exist, there are fewer additional social service agencies to assist residents with matters from health services to winterization assistance. Even when an agency is designated to serve a particular area, its office is often located far away from many of the residents of its service area. In addition, some rural counselors find their clients do not realize that they are eligible for certain kinds of assistance. Others may be reluctant to apply for social services because in some rural areas a stigma is attached to those who cannot fulfill the ideal of individualism and self-sufficiency.

Access to affordable mortgage credit is a problem in many rural areas as well. While banks, savings and loans institutions, and lenders' consortia fund numerous pre-purchase counseling programs in major metropolitan areas in order to meet their requirements under the Community Reinvestment Act (CRA) and fair lending laws, there appear to be few such programs in rural areas. (Rural Delaware is a notable exception, for reasons discussed further below.) Since rural lenders tend to be smaller, and since, as noted above, potential counseling recipients in rural areas are less concentrated, a rural counseling program may reach fewer participants, so it is probably less cost-effective for a profit-motivated institution to provide a counseling program in a rural area than in a city. The director of a rural housing authority developing a homeownership program says he finds that he must educate lenders who have not paid much attention to CRA. He reports they are initially receptive, but he expects their attitude to change when the time comes to provide actual funds.

Rural areas may lack certain physical resources, too. One counselor notes that when she meets with a client in their home she does not have access to a neighborhood copy shop, so making copies of information such as income verification can take more time than in a city. Worse, some rural areas lack enough decent, affordable housing stock. A scarcity of affordable homes may defeat even the best pre-purchase counseling program. A counselor in rural Massachusetts reports that clients are discouraged by the poor quality of the units they can afford. In rural Appalachia, a number of local housing organizations work to overcome this problem by constructing new homes for purchasers, and their counseling programs have developed as adjuncts to their construction efforts.

Finding appropriate homes is not as great a problem in rural Delaware, although housing program staff in that state report that rural properties there do tend to need more rehabilitation than urban units. Even when new homes are constructed, in rural areas infrastructure like water and sewer lines must often be provided. One Delawarean with both urban and rural experience believes that "not in my back yard" resistance to subsidized housing is greater in rural areas, because urban residents are more accustomed to diversity.

On the positive side, a few resources for counselors and purchasers are present only in rural areas. The U.S. Department of Agriculture's Cooperative Extension Service has provided housing counseling programs in rural areas for many years. USDA's Rural Housing Service

(RHS, formerly the Rural Housing and Community Development Service, and earlier the Farmers Home Administration) conducted a two-year pilot program in fiscal years 1995 and 1996 that provided housing counseling through local agencies in 54 rural counties in nine states. RHS also provides subsidized and guaranteed mortgages under the Section 502 program. Direct, subsidized 502 loans carry interest rates as low as 1 percent over 33-year terms, making homeownership accessible even for very low-income households. The Section 502 guarantee program, increasing in funding and popularity in recent years, provides federal guarantees for mortgage loans made by private lenders to households with incomes up to the moderate range (115 percent of area median).

The presence of concentrations of certain populations with special cultural needs is another distinguishing rural feature affecting some rural housing counseling programs. A development specialist employed by the Navajo Nation, the second largest tribe in the U.S., explains that his tribe has never provided or sought out housing counseling programs because mortgages have not been available on the reservation. Efforts to improve mortgage credit availability for Native Americans have intensified in recent years, however, and housing counseling programs have developed along with them. The Minnesota Housing Finance Agency, for example, requires pre-purchase counseling for Native Americans obtaining mortgages through a special subsidy program developed by the HFA for that population. The Minnesota program has served as a model for counseling programs offered to Native Americans in other parts of the country.

The research plan for this study hypothesized two additional distinctively rural aspects to housing counseling that were not found to be true. First, it was thought that because homeownership is more common in rural areas, rural homebuyers might be more knowledgeable about ownership and its consequences than urban homebuyers at the same income levels. Rural counseling agencies report, however, that their clients, who tend to be first-time homebuyers, often are as ignorant as their urban counterparts about mortgages and preventive home maintenance.

Second, it was suggested that because there may be fewer counseling providers in rural areas, rural counseling programs might be more likely to provide “one-stop shopping” than urban programs; that is, a single agency might provide assistance to both homebuyers and tenants, and so might be able to refer clients from one type of counseling to another when their needs are determined. This appears to be true in one sense. Many housing providers attempt to give whatever information and assistance is needed by anyone who requests help, and may well conclude that someone inquiring about home purchase assistance actually has a landlord-tenant problem, or vice versa. But, in another sense, the hypothesis assumed a degree of formal structure in housing counseling programs that seems to exist in rural areas only in some pre-purchase homebuyer education programs. Since tenant counseling is seldom, if ever, provided in structured classes, there is nothing to refer a tenant to or from, except a more knowledgeable staff person. And in a rural agencies with a small staff, frequently the same person is knowledgeable about both tenant issues and homebuyer issues. The blurring of these lines is seen in some of the programs summarized below.

While the above discussion includes a number of generalizations, it is important to emphasize that not all rural areas are alike. Variations in economic conditions, demographic characteristics, and culture can make elements of a counseling program that are effective in one area inappropriate in another. For example, counselors report that in Delaware rural counseling clients are likely to be married couples, and that fairly often women seem to (or claim to) know little about the family finances. In rural Kentucky, on the other hand, a counselor reports that half of his clients are female-headed households (often elderly widows). Among married couples, he states, more than once he has seen a husband wait outside in the car while the wife comes into the office for a counseling appointment. In both Delaware and Kentucky, rural housing providers say that purchasers from more remote areas tend to be poorer, less adept at learning from written materials, and less informed about the responsibilities of homeownership. Other variations include the fact that some rural areas have substantial numbers of non-English-speaking persons among their low-income populations, and some have virtually none. Also, counselors in Delaware mention that clients living in more rural areas tend to be more religious (and therefore to devote more of their financial resources to their churches), although this correlation may not hold true in other parts of the country.

### ***Tenant Counseling Programs***

Programs specifically for tenants in rural areas seem to vary widely in goals, content and approach. Persons seeking pre-purchase counseling are usually tenants, of course; those programs are described separately below. The credit management services provided by consumer credit agencies and the housing-related advice provided by other types of social service agencies are undoubtedly used by rural renters, but were not examined for this study because they are not housing-specific.

### **Objectives**

The objectives of rural tenant counseling programs vary widely. Some focus on families in imminent danger of becoming homeless, and attempt to keep their clients in their homes or to find replacement housing for them. HUD's Family Self-Sufficiency program is very different, with the goal of enabling tenants in subsidized housing to become economically self-sufficient. A third model is provided by the efforts of Rural Housing Improvement to educate tenants in rural central Massachusetts about their rights under state law, and to participate in a mandated landlord-tenant mediation program. Fourth, rural housing agencies that manage subsidized rental property, and public housing authorities administering public housing units or Section 8 programs, provide ad hoc housing counseling for tenants they assist.

### Requirements

The mandatory nature of tenant counseling programs, and the requirements participants must meet, vary with the programs' objectives. For example, Massachusetts requires tenants and landlords to mediate their disputes before bringing them to the state's Housing Court. On the other hand, providers of emergency counseling to near-homeless families have no authority to require tenants to obtain their services, but assist those who request help and meet their income guidelines.

### Certifications and Counselors

There seem to be no programs that certify counselors to work with tenants (except for tenants seeking pre-purchase assistance, described in the following section of this report). Since rural agencies often have small staffs and persons who counsel tenants may have other duties as well, tenant counselors may have obtained certifications for pre-purchase counseling or attended classes. RHI's counselor/mediators are certified by the state as mediators.

### Advertising

None of the organizations providing tenant counseling that were contacted for this study advertise for clients. Some obtain clients through referrals from other social service agencies or the court system. Agencies that counsel their own tenants obtain their clients through their tenant selection process; the staff of a housing authority with its office located in the midst of the 144 units at the county's only public housing project say they have no problems keeping in touch with their tenants' counseling needs.

### Subject Matter

The subject matter covered in tenant counseling sessions depends on the type of counseling being provided and its goals. A tenant facing eviction may need to learn about protective statutes in the state, or about sources of emergency assistance to pay overdue rent. A tenant embroiled in a dispute with a landlord may need an unbiased third party to mediate a discussion of possible resolutions. Tenants often need help with budgeting and credit issues, even if they are not trying to purchase a home.

### Materials

Like the other aspects of tenant counseling programs, the materials used vary depending on the type of counseling being provided and its goals. They often include budget information.

### Counseling Methods

Almost all tenant counseling in rural areas seems to be provided on an individual basis. The subject does not lend itself well to classroom presentation, and it would be unusual to find a group of tenants in a rural area experiencing the same housing-related problem at the same time. One apparently successful group method is used by People's Self-Help Housing in Kentucky, which has found that developing a tenants association with regular meetings produces a high degree of cooperation, mutual assistance, and self-esteem among the residents of a ten-unit subsidized rental building it owns.

While most tenant counseling seems to be informal, one type of formal tenant counseling program is provided as part of the HUD-funded Family Self Sufficiency (FSS) program. For example, a regional housing authority and a local community action agency in central Oregon have 50 FSS "slots" for tenants in three apartment complexes, one subsidized by Section 8 and two by the Low Income Housing Tax Credit. Escrow accounts are required for the Section 8 tenants, into which the housing authority deposits increased monthly payment amounts made as tenants' incomes increase. After five years the tenants can use the escrowed funds as a down payment to purchase a home. Counseling is provided for participating tenants. The escrow is optional for those living in the tax credit funded complexes, and the housing authority has found participation levels disappointingly low there.

### ***Homeless Counseling Programs***

Homelessness, often considered exclusively a big-city problem, is not uncommon in rural areas. Some rural housing organizations provide counseling for homeless persons, often along with other shelter or housing services. Organizations serving homeless persons exclusively were not contacted for this study because an in-depth review of their activities was beyond the scope of this research. Some organizations that counsel persons with other housing needs also counsel homeless persons; the information obtained about their activities is summarized below.

### Objectives

Counseling for homeless persons often has both short-term and long-term objectives. Short-term goals may include finding temporary housing, or applying for available sources of emergency assistance. Longer range plans are likely to focus on finding a stable, "permanent" housing situation, usually rented, and obtaining employment or education. Two of the case studies presented later in this report include organizations that have decided, after counseling homeless families on finding permanent housing, that they must develop transitional housing to meet their clients' needs because of the lack of affordable rental units in their areas.



### Requirements

Homeless persons living in rural shelters or transitional housing apparently are often required to obtain counseling. Where funding for homeless counseling is available, it is sometimes tied to particular shelter services.

### Certifications and Counselors

As is the case with tenant counselors, there seem to be no programs that certify counselors to work with homeless persons.

### Advertising

None of the organizations providing homelessness counseling that were contacted for this study advertise for clients. In fact, providers of services for homeless rural persons generally have far more requests for assistance than they can meet.

### Subject Matter

Like the subject matter of tenant counseling programs, the topics covered by rural homeless counseling efforts vary with the programs' goals. The initial emphasis tends to be on solving the crises that led to homelessness. As clients establish income sources and begin to consider permanent housing solutions, counseling topics focus more on budgeting and credit issues. Counselors may also cover family relations, substance abuse, and the like, depending on the clients' needs, although housing organizations often refer clients to social service agencies for assistance in those areas.

### Materials

Counselors seem to have few prepared materials for use with homeless families. One exception is NCALL Research, Inc., which provides families in its rural Delaware program with a list of questions to ask potential landlords, a list of subsidized housing complexes to contact, a form for keeping track of contacts, a budget form, and a list of savings goals, as well as other materials deemed useful to meet individuals' needs.

### Counseling Methods

All organizations contacted for this study that provide counseling for homeless persons or families use individualized, face-to-face conversation. All report that homeless persons are less likely to have cars than persons enrolled in pre-purchase counseling, so counselors are more likely to travel to meet their homeless clients. Some try to provide clients with information but not to do anything for them that they can do themselves -- such as calling possible landlords. Others are willing to act on their clients' behalf.

### *Pre-Purchase Counseling Programs*

The content and setting for pre-purchase housing counseling programs in rural areas vary from ongoing formal classes with multiple funding sources, to completely individualized meetings with persons applying for loans from a regional loan fund.

#### Objectives

The general objective of any pre-purchase counseling program can be stated as preparing participants for homeownership. Within this generality, however, the emphasis varies greatly among programs. The Minnesota Housing Finance Agency's Native American counseling program, for example, must prepare participants for homeownership under rules established by a different culture with somewhat different values than the participants themselves. Programs funded by or required by banks cautiously extending loans to lower-income borrowers tend to focus on making timely payments and maintaining one's investment, so include little information besides financial management and home maintenance advice. Those established by nonprofit agencies or local governments with the mission of improving the lives of lower-income people are likely to provide more sessions and to include more attention to other aspects of life as a homeowner, such as interior decorating. RHS staff say that agency's two-year pilot program was aimed at persons who assume they cannot get a mortgage and so do not apply for one; its objective, therefore, seemed to be to convince them otherwise as well as to prepare them for ownership.

#### Requirements

Pre-purchase programs may be either mandatory or optional, depending on program goals and the perceived needs of participants. There is a trend among lenders in rural areas, like their urban counterparts, towards requiring pre-purchase counseling. Banks or savings and loans institutions usually require low-income or first-time purchasers to obtain counseling. The Minnesota Housing Finance Agency, after finding that first-time Native American homebuyers using its mortgage programs did not understand the implications of owning their own homes, decided to require attendance at a series of pre-purchase classes. Housing authorities administering the HUD-funded Section 5(h) home purchase program also make classes mandatory.

Counseling programs serving the general low-income public, like the ongoing series of sessions offered by NCALL Research, Inc. in Delaware or the courses developed by grantees under the RHS pilot program, are not tied to specific mortgage programs and so are not mandatory unless an individual family's lender requires attendance in a third-party counseling program. In

Delaware, for example, where CRA-inspired mortgage loans from banks are relatively plentiful, many of NCALL's counseling clients are fulfilling lender requirements.\*

### Certifications

The formal certifications sought by agencies providing counseling are closely related to funding sources and program goals as well. The Federation of Appalachian Housing Enterprises (FAHE), a multi-state association of local nonprofits whose counseling clients receive loans from FAHE's own funds, has not obtained certification for its program, its materials, or its counselors. Some of FAHE's members have asked their counseling staffs to obtain training or certifications, however. A number of rural counseling programs hold HUD approvals, enabling them to receive HUD funding. Others have used USDA Cooperative Extension Service training programs for their staff, or encouraged staff to obtain National Federation of Housing Counselors certification. NCALL, many of whose clients obtain mortgage loans from banks, has obtained approval of its materials from Fannie Mae and the Mortgage Guaranty Insurance Corporation, as required by many private lenders.

### Counselors

The characteristics of the counselor him/herself may be very important to participants. Minnesota's Indian Housing Coordinator experienced some distrust when she first began working on reservation housing programs nearly 20 years ago because, although she is a Native American, she was from the city and is light skinned. The state's current Native American counseling program trains Native Americans as counselors. In contrast, when a Minnesota lender and community action agency teamed to provide loans for elderly persons in conjunction with counseling, no Indians participated, presumably because program staff were not Native Americans.

There is some debate about whether pre-purchase counseling is best provided by third-party entities, or whether it can be equally effective if offered by the staff of the entity making the mortgage loan. This issue has been considered carefully by those involved in such counseling in Delaware. A growing number of banks in the state, believing that counseling is useful but hoping to supply it at a lower cost, now have their own staff provide counseling for lower-income applicants. Reactions to this trend vary. Two CRA officers at large banks interviewed for this report believe strongly that counseling should be undertaken only by third parties. One notes that third-party agencies can save time for bankers by screening out ineligible borrowers,

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\* The president of the National Federation of Housing Counselors cites Delaware as a leader in housing counseling efforts. The state benefits as well from serving as the headquarters location for a number of "limited purpose" banks like credit card banks. These institutions are subject to the Community Reinvestment Act, which requires them to help meet the credit needs of their communities, but they do not make the type of mortgage loans or small business loans lenders often use to meet their CRA requirements. One way they satisfy their legal obligations, therefore, is by funding programs to help Delaware residents obtain the credit they need -- housing counseling programs, for example.

but explains that at the same time it has become increasingly difficult for his bank to justify the amount it spends on grants to counseling agencies, since the funds could be used to hire counseling staff in-house. Another banker believes that if in-house bank counseling replaced agency counseling the number of loan closings would fall. Banks are less likely to provide sessions on evenings and weekends, and less likely to seek out new clients, he suggests, so there would be fewer mortgage-ready borrowers.

A staff person for the city of Wilmington, Delaware, agrees that third-party counseling is preferable, suggesting that the information provided by an in-house counselor could be biased in favor of the bank's program. The state HFA, on the other hand, studied first mortgages they had purchased and found that between one and five years after closing the foreclosure rates were equal among borrowers counseled by banks and those counseled by outside agencies. (The study did not examine delinquency rates.) The state's program director believes objectivity can be created in an in-house counseling program by separating the counseling function from the loan officer function, and having different staff do the different tasks.

In rural Appalachia, the Federation of Appalachian Housing Enterprises and its local member organizations believe their own form of in-house counseling serves their clients extremely well. FAHE makes mortgage loans (usually supplementing home purchase assistance from other sources), and provides pre- and post-purchase counseling to its borrowers through FAHE staff and member organizations' staff. This almost-one-stop assistance process seems to work well for borrowers, who develop trust and a working relationship with the local members' staffs as they work their way together through the pre-purchase educational process, the loan closing, the construction of their home, and the solution of any problems that arise throughout their tenure as homeowners.

Even when counselors are employed by third party counseling agencies, they seem to find that a background in private mortgage lending helps a great deal in working with clients who will obtain mortgage loans from banks or thrifts.

### Advertising

Word of mouth is the most effective way for established rural counseling programs to find participants without being overwhelmed by more inquiries than they can handle. Counseling programs not tied to a specific funding program sometimes locate participants in other ways as well. NCALL staff, for example, publicized their counseling program for Section 502 applicants extensively seven years ago, and have been relying on word of mouth ever since. Their one-time efforts included posting flyers; handing out flyers at subsidized rental complexes; holding introductory workshops at rental complexes, major employment sites, and churches; participating in radio shows; holding seminars for realtors; and speaking or setting up information booths at realtors' meetings and community events. This experience is consistent with the findings of the NCSU study, which blamed poor attendance at post-purchase sessions partially on the fact that sessions were announced by letters, and the Abt study, which found advertising ineffective to attract the expected numbers of potential purchasers to its program. A

number of grantees under RHS's pilot counseling program, perhaps better prepared to target advertising to their local constituencies, planned to advertise on television and in newspapers. Many also expected to get referrals from local RHS offices and private lenders.

### Subject Matter

Having attracted participants, all pre-purchase counseling programs try to teach them certain basic things. First, money management is an essential part of all counseling programs. Most help participants obtain credit reports and provide detailed guidance on dealing with the credit history problems experienced by almost all low-income people. One counselor notes that an important factor is telling participants that credit problems do not make them bad people, and that credit problems can be overcome. Money management also includes budgeting, debt repayment, saving, establishing credit for those who generally pay cash, and the like.

Other common topics include explanations of specific mortgage financing programs and of finance-related terms like "points" and "escrow." Many counseling agencies include information about the home search process, from working with a realtor to obtaining an inspection and understanding a sales contract. The responsibilities of homeownership, particularly maintenance, are also usually taught. All these topics are consistent with those covered in urban programs and found to be useful by the urban studies summarized above.

A wide variety of other topics appear in some programs' curricula. One housing authority provided a session on "deferred gratification" for Section 5(h) homebuyers whose purchases were delayed by serious rehabilitation problems. The authority hoped to teach its clients to be patient with the long process. Another agency has had to become creative with several years of monthly 5(h) sessions, so has branched into home-related topics such as fire safety, lawn care, and decorating, and then beyond into life management issues including using the Earned Income Credit for federal income tax, nutrition, insurance, and parenting. Because experience indicated that families lost their homes because of divorce as often as other financial problems, agency staff hoped that teaching subjects like parenting would actually help reduce defaults and foreclosures. It is too early to judge the accuracy of that belief. It is consistent, however, with the concept of "neighborhood continuing education" described by North Carolina State University in 1971, and with the attempt made in *Counseling for Delinquent Mortgagors II* and the MFPP study to correlate counseling success with referrals to other social services. While *Counseling II* did not find such a correlation, preliminary MFPP findings show such referrals are useful.

### Materials

Most rural counselors prefer to prepare their own written materials so they can target them to the perceived needs of their clients. A number of national organizations have published materials covering the usual pre-purchase topics, and some rural counselors do use them -- particularly videotapes, it seems. One counselor describes an American Express financial education video as "too uptown for us," although she uses it because she lacks anything local on the subject.

Another speaks enthusiastically of a manual prepared by a local agency specifically for low-income rural residents, written in “very basic” language with color-coded pages for different sections such as home maintenance and local financial assistance resources. Minnesota’s Native American program has prepared its own culturally specific training manual and has revised it when experience indicated changes would be helpful. RHS contracted with Booz Allen and Hamilton to prepare instructors’ and participants’ manuals specifically for its pilot counseling program, and used manuals and videos developed by Fannie Mae as well.

In any setting, rural counselors often find that written materials are not their most useful tools. One counselor explains that her clients generally have experienced inadequate education systems and often do not have good reading skills or a “research mentality” that would make them comfortable studying written materials. Perhaps for this reason, videos are used by a number of rural counseling programs to supplement explanations provided by live counselors. As noted in NCSU’s research report, demonstrations and hands-on programs are useful as well; if Minnesota developed a preventive maintenance session, its coordinator says, it would be modeled after an urban program for tenants with demonstrations on actual appliances in a “fun” atmosphere.

Another counselor developed a “family contract” for her clients that enables family members to set goals, list specific steps towards meeting the goals, and establish rewards and punishments for accomplishing or missing the steps. She has no enforcement role in connection with the contracts, however. When interviewed for this study, she had not yet followed up with the families to determine whether they have used the contracts or found them helpful.

### Counseling Methods

Teaching methods vary somewhat among programs. The mix of classroom and individual sessions in any given pre-purchase counseling program seems to be related to the program’s goals, the perceived needs of its participants, and the requirements of the funding source. The Federation of Appalachian Housing Enterprises and its member organizations generally provide only one-on-one counseling for their pre-purchase clients, although at least one member has begun using group sessions to present basic information about how to apply for a loan, followed by individual meetings. Counseling, says a FAHE staffer, “mostly means making yourself available to talk to people.”

Along the same lines, the director of another agency says counseling is “a matter of getting to know the families” personally and helping them do whatever is needed to resolve the barriers between them and homeownership. The counselor must gain each family’s trust in order to work with them on the details of their personal finances. Often, counselors say, this means dealing with family issues and job issues as well. These experiences are consistent with the three research studies that considered the effect of one-on-one counseling in urban areas -- NCSU, HUD’s 1977 *Counseling for Delinquent Mortgages II*, and Morgan Management’s Detroit demonstration -- and found that it seemed to be more effective than group classes.

Group workshops are the first step used by NCALL Research, Inc., in Delaware to begin

preparing relatively large numbers of participants to apply for loans from a variety of sources, although these sessions are followed by one-on-one meetings to complete NCALL's counseling process. The Minnesota Housing Finance Agency finds that classes work relatively well on reservations also. The HFA's Indian Housing Specialist speculates this may be because, since every member of an on-reservation class is from the same tribe, they have a great deal in common. The local tribal counselors, while trained by the HFA, are given the freedom to determine what structures work best, and some of them do augment or replace classes with one-on-one meetings.

Home study is not a popular rural counseling method. It was mentioned by only one person contacted in the course of this research, a banker in Delaware whose employer requires counseling for participants in its first-time home buyer program but would like to reduce its counseling costs. The bank has begun giving purchasers the option of training themselves using Fannie Mae materials. Statistics on the results are not available, but the banker describing the program states he has a sense that self-training is not nearly as successful as attending a counseling agency's program.

One type of pre-purchase program provides learning opportunities while participants occupy the homes they will buy. Under the HUD-funded Section 5(h) program, housing authorities require ongoing counseling for families living as tenants for two or three years in the units they expect to purchase eventually. This gives counselors a long period of pre-purchase/post-occupancy time in which to provide information and solve problems as they arise. The Randolph County Housing Authority in West Virginia, for example, requires six initial sessions for families accepted into its 5(h) program before they can occupy a program house: group meetings on program orientation, budgeting, credit, mortgages, and preventive home maintenance, and a private session on each individual family's credit situation. Then, while waiting for a house (if a wait is necessary) and while leasing a house, families must attend monthly meetings.

As mentioned above, RCHA's monthly meetings have covered subjects ranging from lawn care to parenting. Perhaps more important than the actual topics, however, is the opportunity for program staff and participants to keep in touch on a regular basis, making participating families more comfortable calling the Housing Authority for help and enabling the counselor to tailor the educational program to their needs over time. Some of the most important tailoring has occurred almost by accident, however. The counselor reports that when a guest speaker canceled, she decided to use the time for an explanation of the actual purchase and closing process, although she believed the topic was not yet really relevant to the families. To her surprise, the discussion revealed that the families had a number of serious misconceptions about the subsidized program in which they were participating, despite having heard an explanation at the initial "program orientation" session. For example, participants had not understood that the subsidy meant they would not have to pay the full mortgage amount, and were worried about the program devastating their finances. Fortunately, this session gave her an opportunity to explain the program again and allay their fears.

RCHA participants could not have asked for that information because they did not know they did

not understand the program. They do bring problems to RCHA staff, but these are mostly related to maintenance. Generally they do not tell staff that they are having financial problems until the problem actually affects their ability to make a rent payment on time. Ideally, the staff counselor believes, she should check each family's financial situation every six months.

None of the published counseling studies dealt with the gap between the information that clients actually need and the information clients believe they need, but anecdotal evidence such as RCHA's experiences indicate that such a gap does exist, and that counselors must be alert in order to bridge it.

### ***Post-Purchase Counseling Programs***

Post-purchase counseling for homeowners, while frequently used in rural areas, seems to be somewhat less common than pre-purchase counseling. Post-purchase programs seem to be different in a number of ways as well. Most notably, they are less formalized and more tailored to individual problems.

#### *Objectives*

Since most post-purchase counseling occurs in crisis situations, it tends to have the objective of solving an immediate financial problem so that a family does not lose its home. Some agencies seem to see this goal narrowly, and therefore focus on repairing debt and budgeting problems and on finding sources of additional financial assistance when necessary. Others prefer a problem-avoidance emphasis, and try to maintain ongoing relationships with clients in hopes of identifying potential problems before solving them becomes difficult.

#### *Requirements and Certifications*

Some of the aspects of pre-purchase programs described above are moot with respect to post-purchase programs. It does not seem possible to make a post-purchase program mandatory, for example. An agency or lender could require a delinquent borrower to undergo counseling, but the only penalty could be loss of the borrower's home and thus withdrawal from the agency's program, a result the borrower may be expecting in any event. Formal certification for post-purchase programs often does not apply either; HUD approval applies to agencies doing D&D counseling, but Fannie Mae, MGIC, and even the National Federation of Housing Counselors focus on pre-purchase programs and materials.



### Counselors

Many of the factors mentioned with respect to pre-purchase counselors are relevant for post-purchase counselors as well. The client's ability to identify with and feel comfortable with the counselor is at least as crucial for post-purchase as for pre-purchase counseling. To facilitate early reporting of problems, which may be essential to resolving them, it seems important for the counselor to be located nearby and to be familiar and not intimidating. The Federation of Appalachian Housing Enterprises, which works in several states, finds its borrowers are more likely to contact familiar staff people at the local organization that built their house or referred them to FAHE, even when they have a problem that relates to their FAHE loan rather than to the house itself. Comfort is not necessarily reliant on location, however; Native Americans statewide call the Minnesota HFA's Indian Housing Coordinator with questions and concerns, presumably because she is a Native American herself and has a good reputation for being helpful and understanding.

The third-party versus in-house argument discussed above can be applied to post-purchase counselors as well. Some contend that default and delinquency intervention is best provided by a third party because a borrower will not fully trust or be comfortable with the representative of a creditor whose payment demands the borrower is not meeting. Clients of FAHE and its members, on the other hand, seem to benefit from the careful monitoring and immediate contact provided by their lender (FAHE).

### Advertising

Advertising, and even word of mouth, seem largely irrelevant in locating post-purchase clients. Instead, in some instances lenders refer delinquent borrowers to counselors. The Minnesota HFA, for example, requires the banks that service loans in its Native American lending programs to contact HFA staff as soon as a homeowner is late with a payment. This early notice and intervention undoubtedly contributes to the program's record of zero foreclosures in five years of operation. FAHE, because it is a lender, relies on its loan staff to contact delinquent borrowers as soon as a problem appears, and to notify member agencies who may be better able to reach borrowers in their local areas.

Other post-purchase counseling conducted by many rural groups is unplanned. Borrowers simply contact counselors who worked with them before their purchase. Nevertheless, many organizations that provide counseling believe it is important for them to keep in touch with their borrowers, rather than waiting for borrowers to approach them. As noted above, borrowers may not always know they need help, or they may ask for help later than they should. Staff time and funding availability tends to restrict nonprofit organizations' ability to do this, however.

### Subject Matter

As might be expected, the topics covered by post-purchase counseling generally focus on money management and on maintenance and repairs. Some counselors note that purchasers risk encountering budgeting problems as soon as they move into their new homes because they want to buy new furniture and the like. These issues may be covered in either pre-purchase or post-purchase counseling sessions.

Another type of post-purchase counseling occurs in situations where loss of the home is inevitable. For example, Native Americans sometimes call the Minnesota HFA for help when they are at the end of a five-year balloon loan on a contract for deed and have insufficient credit to obtain another loan. The most useful thing HFA staff can do then is “help them say good-bye to the house.” Although this psychological support aspect of post-purchase counseling is not addressed in any of the studies summarized above, it may be an important part of maintaining clients’ self-esteem. Clients who are provided with some understanding of why they lost their homes and who are assisted in maintaining some dignity through the process may be better able to avoid repeating similar problems, and to be more successful renters or homeowners in the future. HUD’s 1975 *Counseling for Delinquent Mortgagors* report made a similar suggestion. It noted that beneficial but unmeasured results of counseling might include helping families to reconvey their homes by deeds in lieu of foreclosure, thus reducing the negative impact on their credit ratings, and helping families find more satisfactory alternative housing even if they lost their current homes.

### Materials

Counseling agencies have prepared a variety of materials on home maintenance topics, including written descriptions, drawings, and videos. The individual nature of most post-purchase financial counseling, however, seems to have precluded development of specific materials for homeowners delinquent in their payments. In this context, counselors may employ the same budget forms used for pre-purchase counseling.

### Counseling Methods

As mentioned above, most post-purchase counseling seems to be provided on an individual basis. Even agencies with a preference for group classroom teaching before purchase, like RHS, expect delinquency and default counseling to take place in a one-on-one setting. Telephone conversations are often used, but counselors say face-to-face meetings, preferably in the client’s home, are preferable. It appears to be slightly easier to tell someone how to manage their life if the discussion occurs in a setting where they are comfortable.

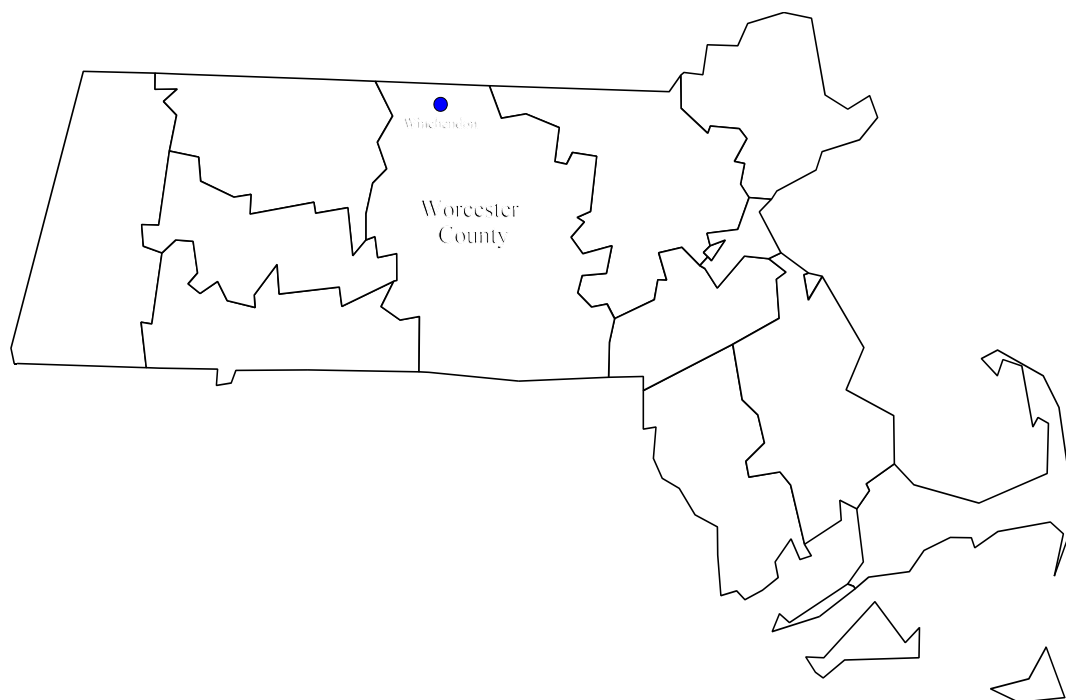
## **CASE STUDIES**

To provide a more detailed look at some rural housing counseling programs, three nonprofit organizations offering various kinds of counseling were selected for case studies. These organizations are not necessarily representative of the types of organizations offering counseling in rural areas nationwide -- they are larger and more experienced than many -- nor do their clients represent the full range of rural populations across the country. They were selected, rather, because they illustrate three of the many different aspects of rural housing counseling.

Each of these nonprofits provides pre-purchase counseling as well as some other kinds of counseling with tenants, homeless persons, or post-purchase homeowners. Rural Housing Improvement, Inc., in Massachusetts offers a wide variety of types of counseling, and has been doing so for 25 years. NCALL Research, Inc., in Delaware has developed two relatively structured programs of pre-purchase counseling, with their content and format tailored to the different needs of clients with different income levels. Because NCALL and the lenders with which it works serve both urban and rural clients, NCALL's experience is particularly useful in comparing urban and rural counseling needs. A third model is demonstrated by the Federation of Appalachian Housing Enterprises in Kentucky and the local housing organizations who are its members, who offer individualized counseling for families applying for mortgage loans from FAHE's own loan fund.

### ***Rural Housing Improvement, Inc., Winchendon, Massachusetts***

Rural Housing Improvement, Inc. (RHI) has included housing counseling as a part of its comprehensive attention to rural housing issues and problems since the agency's inception in 1969. Over the last 25 years, RHI has gained expertise in a broad range of housing counseling activities, from tenant and landlord counseling, to homebuyer education, to foreclosure prevention and property disposition. Headquartered in Worcester County in central Massachusetts (see map), RHI has taken advantage of virtually every source of housing counseling funds that has arisen from local, state, federal, and private sources. Serving the area's low- and moderate-income clients has required innovation and creativity as housing program funds wax and wane with political tides.



**Massachusetts**

RHI's programmatic innovation and prodigious experience provide useful insights into the challenges confronting even well-established providers of housing counseling in rural America. This experience calls into question conventional urban-based understandings of how housing counseling does and should work to help rural people access homeownership. The issues that RHI and its staff confront every day -- how to design and implement housing counseling programs to serve low-income clients efficiently, how to assess the success of the counseling programs, and how to convey such success to funders -- are particularly important in light of current public policy debates about the role of housing counseling.

### Funding and Programmatic History

RHI has offered a range of programs related to rural housing for the last 25 years. Beginning as a small group of concerned citizens who recognized the need in central Massachusetts for improved housing, RHI focused first on rehabilitating the aging housing stock in the area and helping low-income families to obtain homes through the FmHA (now RHS) Section 502 program. Within several years, RHI had branched out to develop affordable rental housing, and to construct affordable single-family homes. RHI grew rapidly over the next decade, and in addition to rehabilitation and new construction began to provide property management services and expanded housing counseling. By implementing training and technical assistance programs, RHI began to formalize a way to share its expertise with other nonprofits and housing developers in the area. "Increasing activity in housing and community development helped the agency to emerge as a regional entity throughout Central Massachusetts, providing the conduit for delivery for local and regional services which had been a part of the founders' vision."\* Currently, RHI has a staff of about 75, with eleven field offices in four states and Puerto Rico.

Rural Housing Improvement has been a HUD-certified housing counseling agency since 1972. RHI has been awarded a number of housing counseling contracts from HUD over the years. Since 1984, in some years RHI has received only \$15,000 a year from HUD to support its housing counseling activities.

Significant additional federal funding for RHI's counseling efforts formerly came from the Community Services Administration (CSA), which funded RHI at approximately \$196,000 a year throughout the 1970s. Portions of those grants were programmed to support housing counseling activities at RHI, especially in the early years when RHI counselors successfully packaged over 200 FmHA Section 502 applications for the agency's clients. RHI was able to employ four full-time housing counselors under the CSA contract alone. When the Community Services Administration was eliminated in the early 1980s, RHI experienced a sharp decline in contracts and funding for housing counseling.

In 1983, the state of Massachusetts became very involved in housing counseling. RHI and other nonprofits worked closely with the state community development office to initiate the Housing Services Program. The goal of this program was to prevent homelessness by offering comprehensive support and housing services to tenants. The program was unique in that it also had as a stated goal a commitment to working directly with property owners not only to identify marginal tenants, but to provide basic education about owners' rights and responsibilities. The program's focus was on homelessness prevention; providing in-depth tenant-landlord mediation services was the primary vehicle for this focus. Several RHI staff were certified by the state as conflict mediators in order to carry out the program in RHI's Worcester County service area. The Housing Services Program experienced statewide success rates of more than 90 percent, according to RHI's Associate Executive Director for Technical Assistance and Client Services.

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\* RHI 25th Anniversary Publication, 1994.

Success was determined by judging whether the identified (or presented) housing problems of the clients were successfully addressed by the service provider.

RHI also participated in another homelessness prevention program, this one under the auspices of the Massachusetts state Department of Social Services (DSS). The program required that contractors collect a 25 percent match, after which DSS provided the remaining 75 percent. While the sources of RHI's matching funds varied from year to year, RHI was generally able to negotiate small contracts from local communities' CDBG Small Cities program funds. RHI's participation in the Housing Services and DSS programs allowed it to increase the total number of full-time housing counselors to five by the late 1980s. After these programs were implemented, RHI hired a program director to oversee the contracts. The complexity of the billing under the programs, due largely to the fact that they billed on a client-by-client basis, necessitated hiring a systems coordinator in addition to a program director.

The Housing Services and DSS programs remained well-funded until 1989, after which RHI was forced to piece together housing counseling funds from local housing agencies and the remaining monies from local communities' CDBG Small Cities program allocations. After Michael Dukakis, the Governor of Massachusetts and a long-time supporter of progressive housing programs in the state, lost the presidential election in 1988 (and along with it much of his political power within the state), funding for housing programs in Massachusetts was cut drastically. Funding for the DSS homelessness prevention program statewide dropped from \$2.1 million in 1987 to \$300,000 by 1990.

#### *Housing Counseling Clients and the Types of Counseling Provided*

RHI has offered a wide range of housing counseling activities whenever funding and staffing have permitted. Since it first began counseling potential homebuyers in the early 1970s, RHI has provided tenant counseling, landlord counseling, homelessness prevention programs, homebuyer education courses, FmHA (now RHS) Section 502/504 loan packaging, pre- and post-purchase counseling, credit and default prevention counseling. RHI currently offers all of these types of housing counseling to eligible residents in its service area.

There is considerable overlap among the types of counseling outlined below. Some clients use RHI's services for only one of the programs, but many stay in the RHI pipeline over a period of time, moving from one program to another as their needs change. Eligibility requirements differ depending on the counseling program, but RHI staff almost never turn people away because almost all of its clients have low incomes. Clients served by two of RHI's housing counseling contracts, the Freddie Mac foreclosure prevention program and the tenant counseling/property disposition contract, are referred to RHI directly from the funders. There are no eligibility criteria for clients served by the HUD Counseling Grant; these are referred by other housing or social service providers, or by HUD itself. The Homeless Intercept Program is available only to welfare recipients.

Because so many people in RHI's service area are eligible for these programs, and because the

need for housing counseling and other housing assistance is so great, RHI never has to market its programs. Its network of field offices, its track record of service in local communities, its work with conventional lenders and its service as a conduit for state and federal assistance have made marketing unnecessary. In fact, RHI generally has more requests for housing counseling assistance than it can handle given staff and organizational resources and declining funding for housing counseling programs.

### HUD Counseling

During fiscal year 1995, RHI received \$15,000 from a HUD Counseling Grant to provide a range of counseling services to residents of rural Worcester County. The scope of activities that RHI conducts under this contract is enormous, from pre-occupancy counseling to both owners and renters, to rental delinquency and mortgage default counseling, to post-occupancy work with a focus on home improvement and rehabilitation. Pre-occupancy counseling may include helping clients become certified for HUD subsidies, reviewing Fair Housing laws or tenant/landlord laws, or simply familiarizing clients with real estate terminology so they are better prepared to participate in the housing market.

RHI staff report that much of their time under the contract is spent on rental delinquency and mortgage default counseling. This counseling is geared toward helping clients to assess the causes of their delinquency problems and to arrange for ways to begin payments again through improved money management, application for housing subsidies, or searching for housing that is more affordable. Post-occupancy counseling generally focuses on mediation between tenants and property owners, and on home maintenance.

Despite concerns about the way billing under this grant is designed (discussed in detail below), RHI staff appreciate the flexibility of the HUD Counseling Grant. The lack of eligibility requirements saves time that would have been spent performing income verifications, and the wide range of allowable counseling activities under the grant allows staff to provide the assistance they feel the clients need. Other housing counseling offered by RHI that is funded from other sources can be somewhat narrower in scope because of restrictions on the clients and the programs themselves.

### Tenant/Landlord Counseling and the Massachusetts Housing Court

RHI has been providing tenant/landlord counseling since the mid-1970s. These efforts have focussed on educating tenants in rural areas about their rights to decent, safe housing under Massachusetts law. Because Massachusetts state law includes among the most stringent tenant protections in the country, renters in RHI's service area have clearly established recourse when conflicts with their landlords arise. In addition to counseling individual renter families, RHI participated in the development of the Massachusetts state Housing Court. The court, which began in Boston and Springfield and was then expanded to Worcester County, requires that every tenant-landlord conflict that arises must go through a formal mediation process prior to a court hearing. RHI housing counseling staff have been involved in the Housing Court's

mediation program since the court began.

The effectiveness of RHI's work with the court has been built in part upon the belief that, according to one staff person, "tenants are only going to have good units to live in if they have good landlords." Within the court's mediation process and through their own landlord counseling efforts, RHI has effectively reached out to landlords in the area to inform them of their responsibilities, to support rehabilitation activities when necessary, and to help landlords find suitable tenants when possible and appropriate. RHI staff assert that area landlords have been very responsive to these activities, bolstering RHI's credibility with landlords in the Housing Court mediation process.

The only drawback to RHI's effectiveness with tenant/landlord counseling and with the Massachusetts Housing Court is, according to one counselor, that RHI "sometimes get[s] trapped by our own success." The judge of the Housing Court frequently refers people to RHI for housing counseling, but RHI receives no remuneration for the services it provides. This is an example of the occasionally uneasy juxtaposition of a commitment to serving needy low-income people in the area and trying to steward organizational resources effectively.

### Homelessness Prevention

Throughout the 1970s, RHI assisted homeless persons in its service area by making referrals to shelters, matching shelter residents with transitional housing, and helping transitional housing residents in their search for affordable permanent housing. RHI had a contract with the Massachusetts state Department of Public Welfare (DPW) for "housing search" activities. The primary goals of these activities were to empty out homeless shelters, to create a pool of affordable housing, and to match up shelter residents with the units and with housing subsidies. By the 1980s, however, RHI and other state housing advocates began to switch their programmatic focus away from simple post-crisis service provision to homelessness *prevention*. This shift was predicated upon the belief that past approaches to assisting homeless people had in some cases contributed to the problem because of repeated and frequent dislocation. RHI joined with the state to develop a program (the Housing Services Program mentioned above) that identified and assisted tenants before they were evicted, primarily by connecting tenants to supportive services.

The Housing Services Program was scrapped by the state just before the new governor, Republican William Weld, was elected in 1990. The Homeless Intercept Program (HIP), administered by the Executive Office of Communities and Development (EOCD), was used in its place. RHI applied for funds under this program to continue its tenant counseling and homelessness prevention activities. RHI was awarded a contract to provide housing counseling to welfare recipients in the towns covered by the two welfare offices serving the south county. The contract allowed for one full-time housing counselor to work at the welfare office in each town. The \$120,000 contract with EOCD represents by far the largest part of RHI's current



housing counseling budget.\* Each of RHI's two HIP counselors carries about 30 clients on active caseload. Between phone calls, home visits, and formal intakes, the counselors estimate that they serve as many as 2,000 people a year each (counting all the members of served families). Both of the full-time HIP counselors have many years of experience in social service provision; one is a licensed social worker and a certified mediator.

The counselors express reservations about the efficacy of the HIP program. HIP's primary goal is to keep homeless people out of hotels and motels (there are no shelters in the area), thus reducing the count of homeless people and the state's cost of housing them in private hotels. One counselor believes that by design the program has conflicting purposes: to save money for the state and the Department of Welfare in a time of diminishing resources, and to provide clients with decent, affordable housing. The counselor asserts that sometimes hotels/motels are the best place for his clients, and that the programmatic push to find immediate shelter in some cases necessitates placing clients in inadequate units. The HIP program is not, however, without its strengths from the perspective of the housing counselors. The reporting requirements under the program are limited to the counselors providing a count of how many people within their service area are living in hotels/motels. As long as the counselors keep these numbers low, they are allowed to provide the services that they believe their clients need.

### Foreclosure Prevention

RHI has subcontracted with the National Consumer Law Center (NCLC) to implement Freddie Mac's foreclosure prevention program. Under this program, homeowners who are 90 days delinquent on a Freddie Mac loan are referred by NCLC to RHI housing counselors for assistance.\*\* Counselors work with the homeowners to assess the reasons behind the delinquency. RHI then makes one of several possible recommendations to Freddie Mac: a) to establish a repayment plan, in which the delinquent owner resumes payments on extended terms, which RHI helps establish with the loan servicer; b) to implement loan modifications if the borrower does not have cash to resume payments but the loan can be rewritten; c) to have a pre-foreclosure "short" sale in which the property is sold at less than market value so that Freddie Mac's loss is diminished; or d) to negotiate with the delinquent owner to issue a deed in lieu of foreclosure. Once RHI's recommendation is approved by Freddie Mac, RHI helps the client work with the loan servicing agency. RHI staff expect to complete monthly follow-ups with program clients.

The RHI housing counselor who implements this program has years of prior experience working

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\* Funding for the HIP program was in serious jeopardy in 1995 when this research was conducted, and RHI's contract with the Department of Public Welfare was threatened. RHI expected to receive only \$80,000 through the HIP in fiscal year 1996.

\*\* NCLC's role in the contract is largely administrative: NCLC receives referrals from Freddie Mac and then passes them on to RHI. Similarly, NCLC gives RHI's recommendations for remedial actions to Freddie Mac.

with mortgage lending institutions and loan originators. She reports that this experience is critical to help her act as a liaison between counseling clients and loan servicers.

RHI's fee for these services is dependent upon how the situation is resolved: an application for a "work-out" repayment plan, RHI's substantiation that a work-out would have been feasible but the borrower was not interested in carrying it out, a sale of the property on the private market, securing a deed in lieu, reinstatement of the loan, or finalizing a work-out. Because this is a new program, RHI administrators are not sure how the fee-for-service approach to payment will work, but they are confident that the program will pay for itself. RHI staff expect to serve 25 to 30 clients under this program each year.

### Pre- and Post-purchase Counseling

The vagaries of the housing market in Massachusetts, and the whole of New England, have made it necessary for RHI to adapt its housing counseling programs over time. The severe economic recession of the late 1980s disproportionately affected employment and housing in New England: after nearly a decade of rapidly escalating housing costs, the bottom fell out of the housing market in Massachusetts. RHI staff note that inventory properties were piling up because of bank failures and foreclosures, and that huge changes took place in the lending community. As banks were bought out by other banks, and the conventional market became more insecure, the secondary mortgage market began to establish industry-standard underwriting criteria. The Massachusetts Housing Finance Agency (MHFA) also increased in importance during this time.

Home prices dropped drastically due to the crash of the area's real estate market, interest rates fell, and the new construction market suffered because of the overflowing inventory, according to RHI staff. At the same time, the pressure on lenders to make loans in the community increased because of the Community Reinvestment Act (CRA). As a result of these conditions, conventional lenders, the secondary market, housing agencies, and community groups increased their attention to pre-purchase homeownership education and post-purchase default prevention programs.

RHI staff report increasing interest in housing counseling on the part of local lenders. This interest has manifested itself in two primary ways: through an increase in referrals from conventional lenders to RHI's housing counseling programs, and through the lenders' financial support of RHI's homebuyer education classes. The North Worcester County Coalition of CRA Banks, based in the Leominster-Fitchburg area, sponsors three homebuyer education courses each year for about \$1,000 a class. RHI worked with the Coalition on improving access to capital before earning financial support of its homebuyer education classes. Fleet Bank, which is also a member of the CRA coalition, has awarded RHI an additional two-year \$18,000 contract to provide homebuyer education classes and individual counseling for course participants.

RHI reports that it offers several complete multi-session homebuyer education courses each year at locations throughout its service area. In the three years that RHI has been offering homebuyer education courses, 176 people have received completion certificates. RHI began offering these courses at roughly the same time that the CRA coalition began working in the area. RHI charges each participant \$50 to attend a course, but the Fleet contract subsidizes the cost for eligible participants (minority persons or those earning less than 80 percent of the areawide median income), thus lowering the fee for those participants to about \$10 per person.

The courses are taught by bankers, realtors, attorneys, home inspectors, and others, and have received formal certification from the Massachusetts Housing Finance Agency as meeting the educational requirements for access to an MHFA set-aside of tax-exempt bond mortgage financing.\* The five-session homebuyer education course begins with an overview by RHI staff on the credit and income requirements of homeownership. After this initial session, participants decide if they wish to continue in the course. If they do, they learn from a mortgage officer about sources of conventional financing, while RHI staff review unconventional sources for mortgage funds such as EOCD, HUD, and grant programs.

In the third session, a realtor discusses how to find the right affordable house, teaches clients how to work with effectively with realtors, and reviews how to choose the appropriate home. During the same session, a lawyer shares information on how to close a loan, and what kind of legal representation a homebuyer may desire. Additional course sessions cover tax planning and budgeting, the implications of multifamily ownership, and the importance of keeping payments current. Finally, RHI staff review plans for home maintenance and repair. The classes are all lectures followed by extensive question and answer/discussion periods. Course participants receive a lengthy bound volume of print materials to support the topics covered by the seminar. These include copies of legal documents discussed, relevant articles from local newspapers, and copies of mortgage applications.

RHI counseling staff report that the trainers for these education classes are almost always from the local community, and they are very familiar with issues in the local housing market, so they are accessible and relevant to course participants. This expertise is apparently extremely helpful to course participants: the last class RHI offered had 15 participants, eight of whom bought houses within two months after the class ended. Individual housing counseling is provided to course attendees whenever it is requested. RHI counseling staff report that they are most likely to hear from participants who buy a home soon after the class ends, but they willingly offer counseling for an indefinite period of time after course completion.

Almost all of RHI's current housing counseling activities are tied into its homebuyer education courses. RHI requires all recipients of its HOME down payment and closing cost assistance

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\* RHI is also certified by Fannie Mae as a housing counseling agency. RHI receives this certification from Fannie Mae because of its participation in the CHAPA contract mentioned below. Fannie Mae recognizes certifications from the Massachusetts Housing Finance Agency, so RHI does not have to meet separate criteria to receive certification.

program and the clients served under its contract with CHAPA (both programs are discussed below) to receive housing counseling, and for some this takes the form of attendance at homebuyer education courses. According to RHI staff, the focus on post-ownership counseling and default prevention has waned somewhat in the past couple of years as the stock of surplus property has diminished and fewer people are buying new homes. Nevertheless, RHI's counselors are encouraged by the growing recognition on the part of conventional lenders that housing counseling in general and homebuyer education in particular serve a vital role in healthy housing markets. The lenders' growing willingness to provide financial support for housing counseling activities is also welcomed.

### Tenant Counseling and Property Disposition

In addition to their growing commitment to financing and supporting homebuyer education counseling, Massachusetts lenders have also begun to seek help with property disposition from local nonprofits. The region's swelling inventory and tepid real estate market in the 1980s necessitated bolder strategies to cut back on properties held in the lenders' portfolio. The Citizen's Housing and Planning Association (CHAPA), a Boston-based nonprofit organization with ties throughout the state, negotiated with the Resolution Trust Company, Fannie Mae, Freddie Mac, FDIC, and the MHFA to administer excess inventory. CHAPA then subcontracted with RHI to dispose of properties and provide related tenant counseling in rural Worcester County. RHI's CHAPA contracts are an excellent example of several problems inherent in providing housing counseling services in rural Massachusetts.

The major pitfalls with this contract are associated with program design and administrative requirements, and also with the connection between payment and how lenders measure the success of the programs. RHI has eight separate contracts with CHAPA to provide tenant counseling and property disposition for each of the five agencies. The sheer number of contracts involved increases exponentially RHI's administrative and reporting responsibilities. With one full-time housing counselor to carry out the counseling and property disposition related to these contracts, administrative tasks must often be parceled out to staff from other departments, thus straining organizational resources. RHI receives an hourly fee (\$25-\$35) for its tenant counseling activities, but the fee does not fully cover the counselor, administrative support for the contract, and the organization's overhead.

Billing for the property disposition element of the contract is somewhat more complicated. The majority of time that RHI staff spend on property disposition activities is related to prequalifying area residents for ownership of inventory properties. RHI must prequalify all those who request it. This lengthy process involves assessing credit and employment histories, and helping clients gather documentation to verify all sources of income. Sources of debt are also considered. RHI counselors then work with each client to assess what type of mortgage might be appropriate to the client's needs and resources. This gives the person a ball-park number for what size mortgage s/he might qualify for, helps the client collect backup documentation before it is required by a mortgage lender, and prepares the client for the loan application process.

Yet RHI does not get paid for these time-consuming activities unless they result directly in a property sale. When a property is “successfully” disposed of, RHI receives either a percentage of the property’s purchase price (usually 3 percent), or roughly \$1,500 (depending on the agency owning the property). Lenders’ understanding of “success,” therefore, very much impacts how (and if) RHI gets paid for its housing counseling activities. This issue is discussed in greater detail below.

### *Measuring the Success of Housing Counseling Programs*

RHI’s housing counselors identify two main issues related to measuring success in the programs they administer and implement. The most important in terms of organizational impact is the degree to which funding for the activities is dependent upon achieving a particular condition that is considered a “success” by the funder. The crux of this issue is that RHI and other housing counseling agencies often receive payment only when their clients purchase a property, such as in the property disposition element of the CHAPA contract discussed above. All housing counseling activities that support this goal, from issuing prequalifications, to providing individual counseling, to attending meetings between the client and real estate agencies, are generally not paid for if the client does not purchase a property. As described in greater detail below, measuring success in this way has a tremendous impact on the financial health of housing counseling providers like Rural Housing Improvement.

According to RHI staff, the most important issue in assessing the counseling agency’s success with a client is how to determine when a program is successful *enough* when success is broadly defined as improving the housing of the client. RHI counselors have given a tremendous amount of thought to these issues because the social impact of their work is very important to them. Organizational viability is obviously a priority for RHI staff -- especially as funding for the HIP program decreases. Consequently, they are also concerned with finding ways to quantify success that they know is inherently unquantifiable: the personal empowerment and education of their clients. They vehemently assert that this empowerment is not simply some nebulous, feel-good byproduct of their housing counseling services, but one that has concrete implications for the clients’ ability to plan for the future and implement long-term goals to improve their housing.

One RHI housing counselor, who has more than 20 years of experience in social services, reports that most of the clients he sees for housing counseling are in crisis. He asserts that providing folks with basic education about how to find, pay for, and maintain modest, safe housing makes a huge difference in the clients’ lives and those of their families. “The [housing] education,” he believes, “empowers the client to deal with reality, and gives them tools to confront it.” And that empowerment and personal opportunity for change, he says, are very hard to measure with numbers.

Another RHI housing counselor with considerable experience providing social services to rural people asserts that “no other type of counseling is that results-driven.” He expresses frustration that his work and that of his colleagues is only considered a success when the person they are

counseling buys a home. He believes that the degree to which a client has received and integrated the information they need about how to improve their housing is critically important.

The Director of RHI's homeownership counseling programs says that internally RHI is not all that interested in empirical measures of success. "We don't need the reinforcement of the numbers to know that we are successful." The other housing counselors echo this sentiment. They are all clear that their counseling activities are vitally important to their clients: they see the changes in the clients' housing conditions that often come as a result of the counseling, whether or not the result is a technical "success."

All of RHI's housing counselors reject the notion that housing counseling activities are successful only if they directly result in a sale. To the contrary, the counselors assert, sometimes the result of good homebuyer education is a realization on the part of the client family that it simply cannot afford a home, or does not want to commit to homeownership. It is a valuable type of foreclosure prevention, for example, to help a client determine *before* s/he has purchased a home on which s/he cannot afford to make mortgage payments.

The housing counselors at RHI believe that they have been successful when the client has made a responsible decision, and when resolution has been achieved, regardless of what the client decides. Finally, the staff believe that their concentrated professional efforts in support of such decisions should be remunerated by funders of housing counseling. For low-income and other marginalized clients in rural Massachusetts, such empowerment and education may well be the missing link that when combined with subsidies or other state, federal, or private support makes the difference between homelessness and decent housing.

Even though they raise concerns about measuring success solely through numbers-driven performance standards, RHI administrators and housing counselors do attempt to gather statistical and other descriptive information that helps show the success of, or challenges to, their housing counseling activities. RHI keeps basic records on housing counseling clients that vary depending upon the requirements of the funders of the given type of counseling. Information requirements range from in-depth accounts of precise counseling provided to individual clients, to phone check-ins about the number of homeless people in hotels/motels in RHI's service area. In the case of the former type of requirements, ironically, the information gathered is used less to measure programmatic success than to assure the funder that it is being billed properly.

RHI staff are also concerned about quantifying the success of their housing counseling programs for their own internal purposes. RHI keeps track of how many clients it has served, broken down by counseling component. Informal phone follow-ups are made occasionally to assess the long-term results of homebuyer education courses and other counseling efforts. Housing counseling staff at RHI think that such long-term follow-up is essential to measure accurately the success of their programs. The technical education they provide -- such as information about mortgage products and appraisal requirements -- is very important to a client's ability to purchase a home. Yet such education does not have to be implemented in the short term to have been successful. A participant in one of RHI's homebuyer education courses, for example, may well need to wait

for three years before purchasing a home, but the counseling was no less successful just because several years passed. Similarly, a client can purchase a home soon after the class has been completed, but if the family does not maintain the mortgage payments and eventually loses the house, the counseling has been less successful.

### The Relationship Between Funding and Measures of Success

One of the reasons RHI and other rural housing counseling agencies are so concerned with how success is measured is that they are eager to justify their programs to current and future funders. Another more immediate reason is that much of the billing for existing housing counseling programs at RHI is geared toward “successful” resolution with clients. As mentioned above, if the counseling activities do not result in a clearly definable success RHI does not get paid. These two reasons for concern are related.

RHI’s associate executive director reports that “funding is a nightmare” for housing counseling activities because “no one wants to fund anything in a large piece.” Funders seem willing, and some are actually eager, to provide small grants, but none is willing to commit needed resources to cover the full cost of comprehensive housing counseling programs. This includes federal, state, and private sources of housing funds. When funders contribute only to RHI’s counseling activities in a piecemeal fashion, administrative costs are often the last to be covered. As mentioned earlier, these costs can be very high because of the way many programs are structured.

RHI counsels many low- and moderate-income rural people in its service area without getting paid for its time, the associate executive director reports. He is very pleased with the trend of local banks to support housing counseling activities, but notes that this support is not enough to maintain RHI’s or other nonprofits’ counseling programs. This gives rise to a conflict that RHI administrators and housing counselors raise repeatedly: RHI’s goal is to serve area residents who can benefit from a broad range of counseling activities; these residents may be close to purchasing a home, or may be years away, but they need access to RHI’s services. At the same time, however, RHI simply does not get paid for the vast majority of its housing counseling activity. This threatens, or at least challenges, the organization’s financial strength. One staff person says that RHI wants “to help marginal people get where they want to go, but [we] don’t get paid to do it.”

Administrators estimate that roughly 25 percent of RHI’s housing counseling activities are actually paid for by funders. This proportion can fluctuate depending upon the client. (Recent referrals of eligible homebuyers from mortgage companies, for example, have resulted in much higher “success” rates. RHI counselors can spend less time with these better prepared clients, which helps offset the extra time they must spend with more difficult cases.) The associate executive director believes that two primary factors contribute to this low proportion. First, RHI clients often have a broad range of problems; they may have bad credit histories, they be un- or under-employed, or they may be fully employed but making the minimum wage. About half of RHI’s housing counseling clients have problems that RHI simply cannot solve or even address.

The second issue related to the low proportion of paid-for counseling clients, he says, is the housing cost/interest rate curve. If clients have income problems, for example, or if they need assisted housing but no assistance is available, or if credit is not available to low-income people in their communities, then housing counseling simply cannot result in a success for those clients.

A related problem is that housing counseling is infused in all of RHI's housing activities, including those that do not immediately appear to include such counseling. This fact is indicative of the foundational importance of comprehensive housing counseling efforts to an overall program of developing, managing, and sustaining affordable housing in rural areas. At the same time, however, the integration of these activities so completely in the work of the organization makes tracking staff time and implementing appropriate billing extremely difficult.

An example of this issue is RHI's participation in the HOME program's down payment and closing cost assistance program. RHI staff report that they have done a tremendous amount of housing counseling as a part of their HOME contract; also, they have had to spend significant amounts of time "hand-holding" real estate agents, alerting them to the needs of the HOME clients. This is not really formal housing counseling, but it builds the capacity of local housing professionals to serve low-income clients.

### *Differences in Rural and Urban Housing Counseling*

Funding of Rural Housing Improvement's housing counseling programs has been a big issue in part because of what administrators perceive as an urban bias in program design. They cite as an example their current contract with HUD to provide housing counseling in rural Worcester County. Under this contract, RHI used to be reimbursed \$35 per counseling unit, which was then defined as slightly less than one hour. (Recent contracts have been for about \$15,000 per year to cover more than 65 towns in RHI's service area. Implicit in the low amount is the aforementioned belief that the grant is "peripheral" to other, larger sources of housing counseling. In RHI's experience, however, there are not any other sources.) After HUD conducted a survey of 30 HUD-funded HUD-approved housing counseling agencies (three in each of HUD's ten regions), it determined that counseling providers could accomplish two counseling units -- with two separate clients -- in one hour. The program and its billing were changed accordingly. In 1995 RHI received \$15.85 per counseling unit.\*

HUD maintains that counseling units are not primarily a matter of time but of what the counselor achieves to identify or resolve the client's housing problem. Thus, a counselor spends *on average* 30 minutes to generate a counseling unit. RHI staff believe that it is unfair to use an urban-based average in rural areas given extreme differences in context. They also question the appropriateness of defining a counseling unit in terms of achievement rather than time, when

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\* Through FY'93 HUD paid \$35 per counseling unit, no matter the agency's costs. In FY'94 HUD still used counseling units, but paid a different amount that was based on the individual counseling agency's costs. In FY'95 the payment was no longer based on counseling units, but on the actual cost for one hour of service.



RHI's counseling staff are paid for their time.

Administrators of RHI's counseling programs believe that an urban agency with tens of thousands of clients within walking or public transportation distance to the counseling provider may be able to see two clients in one hour. But they assert that that is simply not how housing counseling -- or any other service provision -- works in rural areas, where people are much more geographically dispersed, and public transportation is virtually non-existent. RHI has field offices throughout its service area, but it is almost impossible for counselors to see two clients in one hour. RHI has averaged roughly four or five counseling units a day. But in order to pay for the staff providing HUD counseling they need 14 or 15 units per day. The counseling director reports that this gap has "totally affected our ability to serve our clients, as well as devastating RHI's budget." "By calculating the rate the way they have," another staff person asserts, "they have made this an urban program."

RHI could have applied for much more funding under HUD's Counseling Grant program, but staff literally could not figure out how one person could perform enough counseling units to bill all of the funds. So they had to settle for \$15,000, knowing that they would have to put together funds from other sources to pay for the counselor's time: time to drive the considerable distances from one client to another, and time to make follow-up phone calls and complete other administrative tasks not paid for by the program. This packaging of funds from a variety of sources is complicated considerably by the program's regulation that the provider cannot combine HUD monies with other funds to pay for the same counseling hour. This is a real problem, RHI staff assert, when the funds are supposed to be "peripheral" to other sources.

A related issue is that RHI's housing counseling contracts often have production requirements. These requirements are based upon the performance of urban organizations in urban communities. RHI has fewer people in its service area and fewer people with access to its offices. The assumption that Rural Housing Improvement can serve as many clients in a day as its counterpart in Boston is inaccurate given the remoteness of clients' homes and the sheer physical distance between clients and the service provider.

One RHI staff person asserts that "rural problems are not just urban problems on a smaller scale." This reality affects RHI's housing counseling programs in very concrete ways, and exposes the weaknesses of implementing in rural areas programs that were designed to solve urban problems.

### Time and Transportation

RHI's housing counselors believe that time and transportation are two of the biggest differences between rural and urban housing programs in general and counseling programs in particular. RHI's service area includes all of Worcester County, the largest county in Massachusetts. There are more than 65 small towns dispersed throughout the county, and RHI has a commitment to reach clients in every corner of the county. One full-time housing counselor at RHI spends much of her time on the road traveling between the central office in the north central part of the county and clients' homes. Back roads and remote villages increase the time she spends traveling, and decrease the amount of time her activities are paid for by RHI's contracts. She notes that simple office issues that urban providers take for granted can be a problem in a rural context. If she is assisting a client with income verification forms during a home visit, for example, she does not have access to a copier machine. There is not a shop down the street at which to make copies, and often the client does not have transportation to reach one. Something as simple as making the required number of copies can take a lot of time.

### General Lack of Resources

RHI's counselors note that the general lack of resources in rural areas is the backdrop against which they attempt to serve low-income clients. They find that few of their clients have tapped into federal, state, and local social services because of a widespread lack of education about basic eligibility criteria, the stigma in many rural communities connected to receiving such services, and the lack of physical proximity to service providers that people living in urban areas take for granted.

The smaller number of financial institutions serving rural Massachusetts is also a problem for RHI's clients. Low-income people may find it difficult to access mortgage credit. These factors, too, affect the success of RHI's housing counseling programs. Successful housing counseling is often dependent upon helping clients access these comprehensive resources, and, RHI counselors and administrators assert, this is more of a challenge in rural than urban areas.

### Lack of Appropriate Housing Stock

The overall lack of housing units in good physical condition that are affordable to low-income clients is also a serious problem in RHI's rural service area. This lack of units is attributable to several separate problems: the relatively fewer housing units in rural than urban communities, high housing costs, the lower rates of turnover as people live for long periods of time in the same place, and housing quality problems that are more prevalent in rural communities. One RHI counselor reports that there are virtually no available housing units affordable to people with incomes below 60 percent of the areawide median income, even for those clients who can qualify for a mortgage and who receive down payment and rehab assistance. Since many of the programs have time limits, such a dearth of available units often precludes clients from achieving homeownership. This counselor also says that clients who have worked hard to save money and who have attended courses become discouraged when they see the poor physical condition of

houses they can afford.

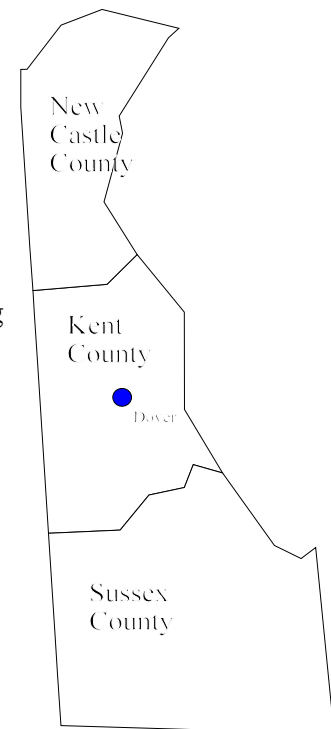
## *NCALL Research, Inc., Dover, Delaware*

The National Council on Agricultural Life and Labor Research Fund, Inc. (NCALL Research) is the only one of the case study organizations in this report that covers both urban and rural areas, so it provides an excellent opportunity for comparison between the needs of urban and rural counseling clients. Delaware has only three counties, running from the city of Wilmington in northern New Castle County to the noticeably more rural southern part of New Castle County (generally identified as the part south of the Chesapeake & Delaware Canal), to the urbanizing Kent County in the center of the state including the capital city of Dover, and finally to the primarily agricultural Sussex County. NCALL serves clients in all three counties, and sees a broad spectrum of their low-income residents because its housing counseling programs serve varied clientele.

### *Funding and Programmatic History*

NCALL was founded in the 1950s as a legislative advocate for better living and working conditions for migrant and seasonal farmworkers. Since 1976 the organization has focussed on technical assistance and training for housing for farmworkers and other rural residents.

Housing counseling is one of several services NCALL provides. The organization also packages homeowners' applications for RHS Section 504 repair loans and grants. It receives no RHS funds for its packaging work. (A special RHS packaging grant program applies only to organizations operating in underserved counties, and none of the identified counties is located in Delaware.) Packaging funds can be obtained as part of a loan or grant issued by the Section 504 program, but that reduces the sum available to the homeowner, so NCALL has decided not to request those funds. NCALL's non-counseling functions center on technical assistance to other rural housing organizations. USDA's Rural Development office, which carries out RHS programs, contracts with NCALL to assist nonprofits sponsoring self-help housing programs across the north central region of the country, extending as far west as Minnesota, and to help prepare preapplications for nonprofit developers seeking funds for farm labor housing. NCALL also receives funds from the Department of Labor, the state of Delaware, and private sources to provide technical assistance for the development of farm labor housing and rental housing in several states. HUD contracts with NCALL to provide technical assistance to Community Housing Development Organizations using the HOME program throughout Delaware. The organization administers a revolving loan fund as well, providing short-term loans of up to \$5,000 for predevelopment activities by others developing affordable rural housing in Delaware.



**Delaware**

NCALL's Rural Delaware Homeownership Initiative (RDHI) pre-purchase counseling program

for RHS/Rural Development applicants began in 1986, and its Homeownership Education Program for bank borrowers in 1989. In 1989, community organizations' Community Reinvestment Act challenges to the merger plans of three banks resulted in agreements to develop lending programs. In addition, the banks signed five-year contracts with counseling agencies, including NCALL, to prepare applicants for homeownership. The state housing authority and some local governments have developed programs to help lower-income borrowers qualify for the bank programs. They provide assistance with down payments, closing costs, interest rate write-downs, and the like.

Before the initial bank contracts expired in 1994, NCALL embarked on an extensive and successful fundraising effort, focusing on other banks in the state. In fiscal year 1995, banks provided 65 percent of the budget for NCALL's Homeownership Education Program for bank borrowers, with government agencies providing 35 percent. For fiscal 1996, NCALL expected to receive one-third more counseling funding than in 1995, with fully three-quarters of it from banks and one-quarter from government agencies, including \$15,000 from HUD. The RDHI counseling program for Rural Development borrowers received about half its funding in 1995 and 1996 from the Delaware State Housing Authority, about 40 percent from banks, and the remainder from NCALL's general operating funds. Rural Development has no funds available to pay for counseling.

Some -- but not all -- of the mortgage assistance programs available to NCALL's clients provide funding for NCALL's work as well. NCALL currently receives \$100 per loan closed using New Castle County's Down Payment or Settlement Help (DPS) program for households with incomes at or below 80 percent of area median income. The City of Wilmington pays NCALL \$7,500 per year plus \$200 for each client earning less than 80 percent of area median income who closes a loan using its financing, with an annual cap to NCALL of \$10,700. The income restrictions result, say NCALL staff, from the fact that the county's and city's programs are funded by HUD Community Development Block Grant (CDBG) monies, and CDBG activities must benefit persons earning under 80 percent of area median. Staff with both the county and the city acknowledge these amounts cannot possibly cover the actual cost of several hours of counseling per client, but say the amounts were established based on what funds were available in the budget rather than on actual costs.

The state housing authority's program (the only non-federal government assistance available in Kent and Sussex counties) does not provide any funding for the counseling it requires. State staff say the Delaware Federation of Housing Counselors have asked them to provide funding for Delaware counseling agencies and the request is pending while they wait to receive detailed information the Federation has not yet provided.

Banks provide more significant funding for NCALL's pre-purchase counseling, usually in lump-sum grants rather than per-closing fees. One bank CRA official says his bank discovered that a fee per approved loan arrangement violated the federal Real Estate Settlement Procedures Act, so they provide lump-sum grants instead, even though there is no guarantee that the number of clients referred back to them by the counseling agencies will be equivalent to the amount of

funds granted. Mortgage companies do not fund NCALL's efforts -- presumably because, although they fund a significant amount of mortgage lending in Delaware, they are not subject to the Community Reinvestment Act.

Like other Delaware counseling agencies, NCALL also benefits from an unusual source of bank financing. The state, long known as a haven for corporations, more recently moved to establish itself as a center for "limited purpose" banks such as credit card banks. These banks are subject to the same CRA obligations as lending institutions but are prohibited from competing with them by offering mortgage programs or other loans. The current chairman of NCALL's board is director of community development for FCC National Bank, a credit card bank that raised its CRA rating from the lowest category (needs to improve) to the highest (outstanding) in only four years by developing an aggressive non-lending community involvement strategy that includes making significant grants to NCALL and three other counseling agencies.

NCALL has invested some of its own resources in establishing its credentials as a counseling agency. It received HUD certification as a pre-purchase counseling agency for the first time in 1994. Its counselors are all certified by the National Federation of Housing Counselors (NFHC), and have received additional training through the Cooperative Extension Service. NCALL staff say the training has taught them some useful techniques, but one of the counselors who works with RHS borrowers notes that training sessions always assume clients will obtain bank mortgages and so do not cover much of the information she must convey to her clients. On the other hand, the banks and agencies that refer clients to NCALL for bank borrower counseling believe the certifications are important. New Castle County, for example, requires its clients to obtain counseling from a HUD-approved agency with NFHC-certified counselors. An official with the county program believes that NFHC certification indicates a counselor is better qualified than, for example, a bank employee who is simply designated a counselor. The director of a state program adds that NFHC training means counselors will use the same curriculum, thus ensuring that clients will receive the same information no matter which agency counsels them. A bank CRA officer believes differences exist among counseling agencies nevertheless, because they cover the same topics differently. He states that NCALL is the best of the four agencies his bank uses (three of which are in the city of Wilmington), because it provides the most systematized and objective approach, is more willing to go to clients who cannot get to the counselors, and connects its counseling work with its other housing work.

Six of the 17 persons on NCALL's staff are full-time counselors. Three work with clients aiming to obtain bank mortgages, two counsel those applying for RHS/Rural Development mortgages, and one works with homeless families. Their programs are described in detail below.

### *Housing Counseling Clients and the Types of Counseling Provided*

NCALL provides three types of housing counseling: pre-purchase counseling for those who will receive mortgage loans from banks, pre-purchase counseling for those receiving financing from RHS's Section 502 program (administered by USDA's Rural Development agency), and counseling for homeless families living in shelters. Both types of pre-purchase counseling are available to persons living anywhere in the state, while funding restrictions limit the homelessness counseling to Kent County.

Both types of pre-purchase counseling are aimed at first-time homebuyers. Eligibility for the available loan programs determines eligibility for NCALL's counseling. Families receiving counseling on the RHS Section 502 program must intend to purchase a home in an area designated "rural" by RHS. (There are RHS-eligible areas within all three of Delaware's counties.) Those in the RHS program generally have lower incomes. Moderate-income families (up to 115 percent of area median income) are placed in the bank borrowers program. Very low-income households (up to 50 percent of area median income) are usually eligible only for RHS funding. Low-income families (50 to 80 percent of area median income) are counseled about both programs, or may participate in both while pursuing all possible funding options.

The income differences between the two programs manifest themselves in other ways as well. For example, spring is the busiest time of year for the bank borrowers counseling program, because clients are enthusiastic about using their income tax refunds towards purchasing homes. More calls come from the RHS/Rural Development borrowers in the winter, however. NCALL counselors believe that cold conditions and high utility bills spur low-income people living in substandard housing to investigate ways of finding better homes.

The bank borrower clients tend to be better educated and better able to use written materials effectively. A counselor remembers one client in that program who was entirely illiterate and could not sign his/her name. The RHS/Rural Development program has counseled several illiterate clients.

Bank borrower clients are much more likely to be working with realtors. NCALL and Rural Development staff speculate this is not only because there are realtors and more bank borrowers in urban New Castle County, but also because realtors are less likely to want to work with clients seeking RHS/Rural Development financing because of the lengthy approval process.

Both programs have seen an increase in clients who do not speak English. The Spanish-speaking populations have increased recently in both urban New Castle County and agricultural Sussex County. Haitian farmworkers have begun to settle in Sussex County as well. NCALL has translated some of its counseling materials into Spanish. To date, the agency has been unsuccessful in finding qualified counseling staff who speak Spanish, but has found that non-English-speaking clients generally bring their own translators to sessions. Usually family members serve as translators.

Cultural differences pose other problems as well. For example, banks request written proof of the source of borrowers' down payments. NCALL counselors say this becomes a problem for applicants from Asian cultures where an extended family pools its resources and then makes them available to whoever needs them. These applicants cannot prove their down payments are theirs in the way the banks want them to be.

In either pre-purchase program, clients receive individualized counseling for as little as three months or as long as two years, depending on need. Counselors in both programs say clients may begin the program with "an attitude." Clients may be attending counseling only because it is required to qualify for the mortgage they hope to obtain, and may see it as an obstacle to be overcome rather than a help. Counselors work to gain their clients' trust, and believe they almost always succeed. They cite specific instances of would-be borrowers who approached counseling as a hurdle and eventually admitted to the counselors that they appreciated what they had learned.

Clients' attitudes may be affected by differences between spouses as well. Like most of the housing counseling organizations contacted for this study, NCALL does not offer relationship counseling for its clients. As they talk about their work, however, NCALL counselors realize they do deal with their clients' communication issues. When they ask a couple to prepare a budget and gather information about their financial situation, they may be forcing the couple to communicate about their finances for the first time. They describe wives who do not know how much their husbands earn, husbands who pay all the bills and must approve their wives' purchases, and, particularly among deeply religious couples, ingrained acceptance of this lack of mutual understanding. NCALL's counseling for homeless families touches more directly on relationship issues, although intensive work in that area is provided by a separate social service agency serving the same clients.

NCALL rarely sees its pre-purchase clients after their closings. Staff are aware of the pitfalls new homeowners are likely to encounter immediately after they purchase, so before purchase NCALL provides clients with information about maintaining their homes and maintaining their credit ratings by, for example, not giving in to the temptation to purchase new furniture for their new homes. The counselor running the bank borrowers program has added information about post-closing events based on questions from previous clients on topics such as dealing with property tax bills or why the monthly payment amount changes on a fixed rate loan. Counselors do not have any way to measure how much of this information is absorbed, although one RHS/Rural Development counselor believes her clients work so hard to get their homes that they are not likely to jeopardize their purchases. They have considered sending flyers to borrowers after closing, or developing a newsletter. Staff time has not been available for those efforts, however.



## Pre-Purchase Counseling for Bank Borrowers

Several of Delaware's major banks have developed mortgage products for first-time homebuyers with low incomes. State and local government agencies have established programs (some specifically intended to enhance Delawareans' ability to participate in the bank programs) that provide second mortgages for down payment or closing cost assistance, or interest reductions through mortgage revenue bonds. The state also has a program to purchase mortgages originated by others. The banks and government agencies all require program participants to obtain pre-purchase counseling. NCALL is one of at least five agencies in the state that offers such counseling.

NCALL usually does not advertise its pre-purchase counseling programs. In the past, when it has advertised its services, the organization has been inundated. Staff reports there is a surge of calls whenever the state announces it is issuing bonds to raise funds for first-time homebuyer programs. (Recently, however, bank programs offer lower interest rates than the state's purchase programs.) Most often, clients are referred to the program by former clients, banks, Rural Development, other counseling agencies, and the housing program offices of the city of Wilmington, New Castle County, and the state.

Staff who answer the phone ask callers about their income levels to determine their eligibility, and tell them when upcoming group workshops are scheduled for bank borrowers or RHS borrowers, as appropriate. NCALL counselors may later advise individual clients to switch from one of the programs to the other, as their circumstances warrant. (Counselors report, however, that some clients are determined not to apply for RHS loans, apparently believing that the program involves more paperwork than a bank mortgage.) Some clients may work with both programs until they and the counselors can determine which will provide them with the best mortgage arrangement.

The pre-purchase counseling process begins with a group workshop. These two-hour workshops are held twice a month, usually once during an afternoon and once in an evening. NCALL is considering adding a regular third session specifically for New Castle County, where the more dense population leads to a heavier demand. Presently, an average of 25 families attend each workshop session.

The workshop is presented by NCALL staff and outside experts such as a realtor, a home inspector, and a bank loan officer. The topics covered include budgeting, "hurdles to homeownership," advantages and disadvantages of homeownership, a review of unfamiliar terminology, types of loans, and housing options. The presentations use a slim packet of 20 pages of written materials and forms. Many were prepared by NCALL staff. They include a list of "home purchase terms" with definitions; an explanation of criteria used to qualify a borrower for a loan; a questionnaire entitled "advance preparation for homeownership" that asks about savings, income, credit, debt, and "comfort level"; savings tips; a budget evaluation form; information about credit reports and a form used to apply for a free credit report; and the like.

NCALL counselors have reviewed materials prepared by others but believe they are not appropriate for NCALL's clients. Fannie Mae's recently published counseling materials, for example, require a level of "math abilities" few of her clients possess, says NCALL's primary bank counselor.

After the initial workshop, all sessions are individual meetings between family members and an NCALL counselor. At the end of the workshop, clients are asked to call the office for an appointment if they wish to pursue the home purchase process. They are told they should bring to the intake interview their last two years' income tax returns and W-2 forms, their two most recent pay stubs, the budget worksheet provided at the workshop, and a credit report.

NCALL's bank borrower counseling program anticipates at least four individual meetings of about two hours each, and staff have developed a standard packet of information for each: an intake interview, a financial analysis session, a pre-submission session, and a pre-settlement session. The actual number varies depending on the client's needs. If the information a client brings to the intake interview shows that they are not financially ready for homeownership, the counselor begins working with them immediately on budgeting and credit issues. If they are mortgage-ready, the counselor will help them determine their price range and financing options and will discuss the home search process with them -- information that is not yet appropriate for clients with budget or credit problems.

NCALL counselors attempt to provide whatever information and "hand-holding" clients need as they improve their credit and search for a home. They cannot do everything, however. They describe their pre-purchase counseling efforts as education that includes credit repair. Clients who need extensive assistance with consolidating loans, reducing large debt loads, and the like are referred to a consumer credit agency.

Counselors often work closely with the bank from which a client will receive a mortgage. NCALL's most senior counselor finds her experience in a previous job processing loans for a bank to be invaluable in knowing where banks can be flexible for her current clients. For this reason, NCALL tries to hire counselors with mortgage experience, or at least with experience in banking. Each counselor sees about two clients per day, four days a week, and spends the fifth day on paperwork.

At the end of fiscal 1995 (September 30, 1995), NCALL's records showed the organization had about 1,000 open files of bank borrower clients who had not yet closed their loans. During fiscal 1995, NCALL received 873 inquiries about bank counseling, and began working with 561 new clients. NCALL clients submitted 268 mortgage applications, and closed 264 mortgage loans. (This does not mean that all but four of the applicants closed; some of the 264 closings were clients who began their counseling or applied for a loan in previous years.) Of the 264 who closed, 103 (39 percent) were female-headed households, 55 (21 percent) were male-headed households, 90 (34 percent) were couples, and 16 (6 percent) were unmarried individuals purchasing together. Sixty-seven percent had incomes at or below 80 percent of median.

More than half of NCALL's bank borrower clients come from New Castle County, including the city of Wilmington. Most of the remainder live in Kent County. First State Community Action Agency provides pre-purchase counseling in rural Sussex County, so NCALL receives fewer clients from the southern part of the state -- in fiscal 1995, only 4 percent.

While NCALL has no organized post-purchase counseling effort, occasionally lenders refer clients back to NCALL for assistance if they become delinquent in their mortgage payments. New Castle County, for example, notifies NCALL if a client who received county assistance defaults on his/her mortgage. On the other hand, one banker interviewed for this study explained that privacy concerns prevent his contacting NCALL directly about delinquent borrowers. He says he is allowed -- in fact, required -- to provide such borrowers with a list of available counseling resources, but cannot ask NCALL to intervene.

NCALL staff have found that when counseling begins, and how long it lasts, is an area of some disagreement among the parties involved in helping lower-income families to purchase homes. Some banks and government housing agencies refer clients for counseling before they sign a contract to purchase a home, and others do not require counseling until after a contract is signed (but before closing). NCALL staff believe strongly that beginning after a contract is signed is too late for counseling to be most effective, and report that these clients often say they wish they had obtained much earlier all the information presented in the counseling process. The director of the state mortgage assistance program explains that if homebuyers begin counseling before they have a contract, banks complain that counseling slows down the purchase process. She will not consider eliminating counseling to save that time, however, believing it to be essential for many low-income buyers, but unlike other government agencies she will accept in-house counseling by bank staff. In contrast, at least one banker states that he is not concerned about the amount of time counseling takes. He contends that counseling should occur earlier because it is most useful for those who are not yet ready to buy -- in other words, those who would not yet qualify to sign a contract -- because they need help improving their credit rating, saving for a down payment, and the like.

Another reason the counseling process delays loan closings, according to some bankers and government agencies, is that most of the counseling organizations in the state have waiting lists. So far, NCALL has been able to avoid establishing a waiting list and can handle all the clients who request its assistance. One banker states that his choice of a counseling agency for a client may depend on which agency has the shortest wait time rather than which one is most convenient geographically. Similarly, the state's program director says she may recommend a lender for a client based on whether the lender has in-house counseling available to save time.

To accommodate the need and reduce costs, NCALL counselors report, some of the other counseling agencies in the state are attempting to reduce the amount of staff time spent on counseling by shifting from individual counseling to classes. Some hold all-day sessions on weekends. The City of Wilmington is considering nudging agencies towards having more group sessions. NCALL's counselors strongly believe that counseling should be tailored to clients' individual situations, however, and that therefore most topics cannot be covered effectively in

classes. In addition, they find that clients are not comfortable asking questions in groups. They are considering turning their final, pre-settlement session into a class, however. The general topics covered in that class -- maintenance, homeowner responsibilities, insurance, crisis management, and mortgage prepayment -- might be effectively presented in a group, counselors think, and fewer personal questions arise about these issues because they have not yet become relevant to clients' lives.

#### Pre-Purchase Counseling for RHS/Rural Development Borrowers (Rural Delaware Homeownership Initiative)

Potential Rural Development borrowers are usually referred to NCALL by the agency itself. Rural Development's community development manager for New Castle and Kent Counties says her agency screens callers to determine their eligibility and level of knowledge about the Section 502 purchase program. Most callers do not yet know enough, and are referred to NCALL rather than being rejected as potential borrowers. NCALL staff is comfortable with this, preferring to help clients determine their eligibility rather than have Rural Development reject them first.

Rural Development has asked NCALL to offer workshops on budget and credit counseling issues also, without including information about obtaining a Rural Development loan, NCALL staff say. While NCALL sees a need for this kind of training, and a shift in lender emphasis in this direction, it has not yet been able to provide such sessions.

The steps in the current counseling process are essentially the same for Rural Development clients as for bank clients, although the content and approach are different in ways tailored to the needs of this clientele. Like the program for bank borrowers, the Rural Development borrowers' counseling begins with a group workshop. NCALL usually schedules two workshops each month, usually in the evening, and an average of 15 families attend each session. When families register by phone, NCALL staff sends a summary of the Section 502 program and a questionnaire for basic financial information, asking them to fill it out and obtain a credit report before the workshop.

These workshops are shorter than those for the bank clients, lasting from one hour to an hour and a half. Usually an NCALL counselor is the only speaker. The presentation pace is slower than at the bank borrowers' workshop. Because Rural Development has only one mortgage product, there is no need to explain types of loans. Instead, this workshop focuses on how Rural Development determines income eligibility and what types of houses are eligible. Most Rural Development borrowers purchase new homes, so information about the construction process is also covered. NCALL presents less written material than at the bank borrower workshops, having found that paperwork is not only not helpful for Rural Development clients, but often intimidates them.

After the workshop, clients work with a counselor on an individual basis, as in the bank borrower program. They begin by reviewing their credit and budget situations. Like first-time homebuyers everywhere, particularly those with low incomes, many of them have credit problems. NCALL counselors say they may also suggest that clients could increase their incomes by applying for assistance programs they may have avoided, such as Food Stamps. They try not to do things for their clients, but rather to provide families with the information they need to apply for programs or to arrange for payment of overdue bills themselves. They may refer people to social service agencies for assistance, or contact creditors directly when that seems necessary. NCALL staff do work directly with clients to prepare applications for Rural Development funding, review all the required paperwork carefully with the clients, and then accompany clients to interviews at Rural Development offices.

All too often, counselors say, Rural Development does not have mortgage funds readily available. The counselor's role then focuses on helping clients wait. Usually clients "are good," says an NCALL counselor. Sometimes, however, clients may need to be advised not to change their debt load by purchasing a new car. Their enthusiasm for the purchase process may need some support as well.

When funds are available and a house is located, an NCALL counselor attends the loan settlement with each client. Borrowers hire settlement attorneys, interviewing them using questions suggested by the counselors.

Throughout this process, NCALL staff give Rural Development borrowers much less written material than they give bank borrowers. Over the several years she has been in her job, NCALL's primary Rural Development counselor has reduced the amount of paper she uses. She firmly believes that her clients learn a great deal from her counseling program and understand what they are told, but that they simply do not learn well from reading and, in fact, are intimidated by forms and papers.

Rural Development clients' situations are affected by other issues as well, NCALL counselors say. For example, they have transportation problems more often than the slightly higher income bank clients, and rural Delaware -- like most rural areas -- has no public transportation system. While the bank borrower counselors will occasionally meet clients outside NCALL's offices, the Rural Development borrower counselors do so on a regular basis, and also provide transportation to clients otherwise unable to get to appointments. Rural Development counselors find their clients are often more comfortable when counselors come to their homes than when they come to the organization's office.

The Rural Development counseling staff maintain demographic data on their clients, but they do not track persons who attend initial workshops. They estimate that slightly more than half those who attend a workshop will then schedule an individual session. In fiscal 1995, NCALL worked with 363 would-be Rural Development borrowers: 26 in New Castle County, 182 in Kent, and 155 in Sussex. Seventy-four applications for Section 502 loans were submitted, although some of them were for clients who first contacted NCALL in an earlier year. Thirty-eight were

approved, and 30 loans closed. Half of these 30 new homeowners were married couples, and half were single individuals or single parents. Fully 70 percent had very low incomes, with the lowest being \$8,225. Sixty percent were white and 40 percent black.

As of October 1, 1995, there were 69 families in the Rural Development application process. This number was much higher than previously, NCALL staff explained, because Rural Development was allowing families to apply for a loan before they found a site on which to construct a house. The process would change further when new regulations for the Section 502 program took effect in October 1995. Among the many modifications in these regulations was a change in the way eligibility is determined. Each of the 69 families pending would be required to re-qualify under the new rules.

NCALL counselors estimate they spend more time with the average Rural Development borrower than with the average bank borrower. They do not track hours spent per client. Therefore, while they can state that it often takes a year to get a client to loan closing, they are not sure how many hours they spend with that client during the year. Each of NCALL's Rural Development counselors sees about 15-25 clients per month.

NCALL provides financial assistance to a few of its Rural Development borrowers, as well as counseling. The organization has its own small revolving fund, and can loan a borrower up to \$500 to cover Rural Development closing costs. NCALL has found that borrowers are slightly less likely to keep current on repaying these loans than on their mortgages, however. Currently, three out of five outstanding loans are delinquent, and one has been delinquent for five years. Staff continue to work with borrowers to revise their repayment plans, but have not gotten tough with anyone.

### Counseling for Homeless Families

NCALL's counseling for homeless families is fundamentally different from its pre-purchase counseling programs. This "New Start" program is funded by a subcontract from a social service agency called People's Place II, using federal Community Services Block Grant funds to assist families in crisis. People's Place II manages the overall program, providing case managers and non-housing-related counseling for the client families. One of NCALL's staff counselors works full-time with the families to determine their housing goals and help them plan ways to achieve those goals, including budgeting skills and debt management. The program serves about 60 client families each year. Because the program is not open to the general public, NCALL does not advertise its availability. (Many potentially eligible families do not even get into the program; the participating shelters turn away two families for every one they serve.)

The client families have all agreed to participate in the program. They are all living temporarily in one of two family shelters in Kent County, or in a shelter for battered women in Sussex County. All have children (an eligibility requirement for the program), some are two-parent families, and many are female-headed families. As would be expected, all have very low incomes and are in crisis. NCALL staff report that many have histories of substance abuse, and

some have experienced spouse abuse. The primary cause of their homelessness, however, NCALL staff believe, is a shortage of jobs and affordable housing. The organization prepared an inventory of available rental units, and determined that most cost more than these families can afford.

The shelters all provide housing for 30 days only, and a state program provides funds for an additional 90 days in a motel. Necessarily, then, finding some longer-term housing situation is a primary focus of NCALL's work with these clients. NCALL's counselor and the People's Place II case manager help each family prepare an agreement establishing goals they want to achieve. People's Place II works with them on improving their income, obtaining education, dealing with any substance abuse issues, and the like. NCALL's counselor works with them on their housing goals and financial management skills only.

The first step towards achieving housing goals is meeting with the family to prepare a "housing history." Their history impacts their current eligibility for some types of assistance. For example, someone who has been evicted from public housing will have a very hard time finding a place to live. Some emergency funds are available from sources like the Salvation Army but cannot be used a second time by a family that has received those funds in the past year. Based on their history and needs, the counselor tells them what kinds of assistance they are eligible for, and how and where to apply.

Unlike NCALL's pre-purchase counseling, the New Start program provides clients with few written materials. NCALL has prepared written resource materials for program participants, and uses them as staff believes to be appropriate. The counselor does give clients a list of questions to ask potential landlords, and a form for keeping track of contacts with potential landlords. She also uses a simple budget form and list of savings goals based on the pre-purchase materials.

Other differences from the pre-purchase programs stem from the clients' different needs. The New Start clients may not have access to a telephone, for example, so they sometimes use NCALL's office phone. They are more likely to lack transportation than the pre-purchase clients, so NCALL staff travels to meet them more often. Support groups seem potentially more useful for these clients, so staff have considered establishing them, although they have not yet done so. Generally, issues not strictly related to housing arise more often in counseling these clients.

While this program began as a counseling-only effort, it has led NCALL into a search for transitional housing, as staff have discovered there is a dire need for such housing while these families work towards permanent housing. People's Place II and NCALL have available a total of six transitional units, three of which were developed by another organization with NCALL's assistance. Finding operating funds for this type of unit is very difficult, NCALL staff report. NCALL also has often successfully paired families with churches. The church provides direct financial assistance, perhaps paying part of the rent for an apartment, paying utility bills, or purchasing items like diapers that are not covered by food stamps. People's Place II itself has a small fund available to provide grants to homeless families to cover expenses like a security

deposit for an apartment.

Each client family's case manager from People's Place II keeps in touch with the family over time. When housing issues arise in the future, the case manager refers families back to NCALL. Thus there is no specific end point in NCALL's relationship with these clients, unlike the finality usually provided by loan closings for pre-purchase counseling clients. NCALL has found a number of these clients need extensive budget counseling after they find permanent housing, and that serving their needs precludes accepting large numbers of new clients.

### *Measuring the Success of Housing Counseling Programs*

Extensive discussions with individuals interviewed for this case study yielded no clear agreement on how to measure the success of housing counseling programs. There was consensus that success is hard to quantify, but not on how best to approach a quantification.

*Closings, defaults, and delinquency.* When NCALL applies for financial support for its pre-purchase counseling programs, it claims to be successful based on the number of loans its clients have closed. Interviewees often suggested the number of closings as one possible measurement. Even one who criticizes it seems to rely on it: a program officer in New Castle County's housing office downplays the usefulness of measuring closings -- stating that his office and the counseling agencies are more concerned with whether counseling has any positive impact on the clients -- but his program reimburses counseling agencies for each loan closed, and does not provide funding for counseling clients who do not purchase. Bankers, too, agree that the number of closings is an important measure, although none of the three bankers interviewed would gauge the success of counseling based on closings alone.

For example, despite the concerns of some (discussed above) about counseling slowing down the purchase process, one banker suggests that those who spend the most time in counseling are those who benefit from it the most. If a buyer were ready to purchase immediately, counseling would be a quick process. If more work was needed, the time would be longer. Therefore longer counseling might represent greater success.

For another quantifiable measurement of success, one banker says he likes to cite the dollar amount of the new mortgage loans represented by the closings. He also looks at the dollar amount of loans leveraged with first-time home buyer programs. He calculates the success of his bank's counseling grant to NCALL by assuming that his bank accounts for the proportion of NCALL client's closings represented by the proportion of NCALL's total counseling budget provided by its grant.



In addition, of course, bankers track default and delinquency rates for their “CRA loans” to first-time borrowers who received pre-purchase counseling. One reports that since 1989 the default rate for these loans has been about the same as for other mortgage loans, but better than the national rates for FHA and VA loans. Another says that at 3.5 to 5 percent, his CRA loans have a higher delinquency rate than the 2 percent for other mortgages, but points out that the national FHA delinquency rate is higher.

It is difficult to assess counseling’s success based on default and delinquency rates, however, because, as several interviewees note, many factors besides counseling affect whether purchasers succeed as owners. Loss of a job or a change in family situation can affect even the best-prepared buyer’s ability to keep making payments. As a state staffer says, any attempt to use default and delinquency rates as a measurement would have to include a way to take these other possible factors into account. In addition, NCALL staff point out that counseling may lead to another kind of success mixed in with a delinquency problem: they recently received a request for help from a former counseling client whose husband had died, leaving her unable to meet her payments. Because she had received counseling, she knew that help was available and that it would be useful to seek that help promptly.

*Foreclosures avoided.* NCALL’s chief Rural Development counselor believes the number of Rural Development foreclosures has decreased since the agency started referring would-be borrowers to NCALL for counseling. Rural Development’s local community development manager agrees that the number of foreclosures avoided by counseling could be a good indication of counseling’s success. She points out, however, that it could be very difficult to implement such a measure. How could anyone know how many foreclosures would have occurred in the absence of counseling? No agency or office in the business of improving housing conditions would be comfortable withholding counseling from a control group matched to a group that did receive counseling.

*Number and quality of applications.* NCALL staff and Rural Development agree that the number of closings would be a wholly inappropriate measure of success for Rural Development borrowers. The number of Section 502 closings is limited by funding constraints, so not all qualified applicants can close on a loan. One NCALL staff person believes the number of Section 502 applications would be a better measure of success for her Rural Development clients.

Rural Development’s local community development manager suggests the quality of the applications would be the best measure for her. The more prepared the applicant, the less work her office must do. She believes NCALL’s counseling program is invaluable in making the 502 program work in her area. The applications from NCALL clients are better, she states, and her office must do less work to prepare those applicants for purchase. In fact, she is so confident about NCALL’s counseling’s usefulness that her office has not tried to measure it.

An official at one large bank also gauges success by application quality, although his bank does not have Rural Development's financial constraints. He can tell whether an applicant has been well counseled based on their application, he says -- for example, whether they include all the appropriate documentation.

*Number of clients.* An NCALL staffer suggests that a counseling program is successful if it has many clients. A variation on that theme is suggested by a banker who says in the first year of his bank's program 800 interested buyers received counseling but only 150 of them closed loans. He believes that indicates the counseling agency (NCALL was not involved with that bank's borrowers at that time) did a good job screening out unqualified people so the bank did not have to spend time working with them. In other words, sometimes a low ratio of closings per counselees might constitute success.

*Informed consumers.* Learning to seek help and other positive psychological impacts of counseling can constitute "success" as much as closing a loan does, several interviewees state. They agree with one NCALL staffer's statement that counseling enables people to make informed decisions, and for some the best decision is not to buy. In addition, NCALL staff believe that counseled clients are better educated consumers of housing and other credit products. They see many clients who have made credit purchases based on monthly payment amounts without understanding how much interest rates can add to the total amount repaid, and without realizing they can comparison shop for favorable rates. Counseling teaches them to find ways to avoid overpaying on interest for purchases such as furniture. An NCALL staff person suggests it would also be interesting to use credit agency data to examine ways in which pre-purchase counseling might have affected clients' currency with paying bills, their credit ratings, and the like.

*Increased bank business.* One banker proposes the number of referrals could serve as a measurement of success. When counseling agencies refer interested buyers to his bank's program, the bank benefits from the agencies' work, because these borrowers would not necessarily approach the bank directly.

In addition, counseling leads some clients to become bank customers for the first time -- whether or not they purchase homes. It is not uncommon for low-income families to pay their bills in cash or with money orders until counseling teaches them it is important to have checking and savings accounts, according to NCALL staff. Asked about this as a measurable result, a banker who apparently had not previously considered the possibility agrees that it is likely to be true. He suggests that some clients also probably become mortgage customers later, including some who obtain market-rate mortgages when their incomes improve.

*Client perceptions.* Two interviewees suggest surveying borrowers to see what they believed they learned from counseling. One proposes periodic questionnaires, perhaps 30 days, six months, and two years after closing. Since the information buyers need changes over time, and

their retention of material presented in counseling presumably diminishes over time, it could be useful to know what they remembered and found helpful as time passed.

New Castle County did survey borrowers who closed mortgages using the county's down payment or settlement assistance programs. The survey, completed in August 1994, includes clients who closed between June 1991 and June 1994, and asked about a number of aspects of the program including housing counseling. Surveys were mailed to 411 borrowers, 168 of whom returned their questionnaires. The survey is not representative of Delaware counseling clients generally, of persons who attempted to use the county program and received counseling but did not close on a mortgage, or even of those who did use the program. About a quarter (23.8 percent) of the respondents had obtained counseling from NCALL, and the rest from three other agencies.

Almost all respondents (94 percent) stated they were satisfied with housing counseling. Even more -- 97 percent -- were satisfied with the county program, and the satisfaction with counseling seemed closely connected to the fact that it was a requirement of the program: a large majority (82.5 percent) said that housing counseling helped them overcome barriers to homeownership because it resulted in their obtaining a loan from the county program. That multiple choice question listed several other ways in which counseling might have helped overcome barriers to homeownership, but "provided confidence" was a distant second response (7.8 percent) and "budgeting and saving" an even more distant third (3.6 percent). Over 90 percent stated their counselors were "knowledgeable and adequately prepared," and that "the steps to securing a mortgage and locating a home [were] outlined to you sufficiently." Equal numbers of respondents would and would not have gone through counseling if there were no county grant involved, and one-fourth said they would pay \$100 for counseling.

In late 1995 New Castle County was undertaking a new survey to determine the current situations of the homeowners who sold homes to participants in the county's program. Their findings could point towards the possibility that counseling helps start families on an upwardly mobile track. A banker, probably unaware of the county study, notes separately that counseling may have benefits to the community at large far beyond its benefits to individual families. In much of Delaware, he says, homes are available for purchase, and the bank programs that require counseling enable families to buy those homes, so the programs are good for the community as a whole. Measuring the extent to which counseling provides those benefits could be a truly daunting task, however.

### *Differences in Rural and Urban Housing Counseling*

Persons involved with housing counseling in Delaware can identify numerous differences between urban and rural residents that affect their counseling needs. Except where noted below, they say the distinctions are relevant to Rural Development borrowers as well as bank borrowers -- in other words, across different income levels.

Several people interviewed for this case study mentioned the lower incomes of rural Delaware

residents as a key difference between rural and urban housing counseling in the state. NCALL counselors find that lower rural incomes mean rural people often have more credit problems and need more counseling, so they spend more time with NCALL counselors. Also, she notes, New Castle County residents qualify for purchase assistance with higher incomes than downstate residents, because eligibility is based on having an income below 80 percent of the county median, and New Castle County's median is higher, so 80 percent of median is higher as well. While houses cost less downstate, she says the difference in prices is not enough to make up for the income advantage in the urban county. Another NCALL staffer thinks the organization may be counseling those already best prepared to become homeowners in New Castle County among those eligible for the bank programs, but receiving a wider cross-section in Kent and Sussex counties.

One banker says the state's most rural residents, those in Sussex County, probably "start about three steps behind" urban dwellers. NCALL counselors agree, stating that both bank borrowers and Rural Development borrowers from New Castle County are more knowledgeable than their counterparts downstate. They are not sure why this is the case. Bank borrowers might be better informed due to heavier bank advertising in the Wilmington area, but Rural Development does not advertise anywhere in the state, and an officer of one major bank says his bank rarely advertises their first-time home buyer program. Realtors may be responsible for part of the difference, since several people note there are more realtors working with bank borrowers in New Castle County than downstate, and Rural Development staff report that their applicants from New Castle County are also more likely to be working with realtors.

A state HFA staff person believes downstate residents have not only less income, but also less education and less sophisticated financial "habits." They are less likely to use checks to pay their bills, and more likely to save at home rather than in a bank account. Thus it is harder for a lender to verify their financial information. Language may pose barriers as well. Some of these problems, she notes, are also experienced by persons living in inner-city Wilmington.

There are some general demographic differences between urban and rural counseling clients, as well as differences in income and education. There are more farmworkers in Sussex County than in the more northern parts of the state. Correspondingly, there are more non-English-speaking clients in Sussex County (both Hispanic persons and Haitians) and in New Castle County (Hispanics).

NCALL staff find that the (rural) Rural Development clients are more likely to be single parents, most often women, than the (more likely urban) bank clients, because single parents are more likely to have the low income levels that qualify them for Rural Development assistance. Conversely, for a bank program serving families with slightly higher incomes, one banker says the rural borrowers are more likely to be white couples, whereas in Wilmington they are more likely to be black female-headed households.

Among couples, NCALL staff have observed that rural couples are more likely to attend counseling together, while in urban areas one spouse will often attend alone while the other

works or tends to other obligations. They say a rural woman is more likely to ask to schedule a meeting so that her husband can attend, explaining that he is the one who really knows about their finances.

NCALL counselors report also that the more rural the client, the more likely religion is to be an important factor in their life. Religion can become a housing-related issue in several ways. Clients' budgets are strongly affected if they tithe (pay 10 percent of their income to the church), and NCALL has clients who consider tithing an absolute obligation. Some consider donations to their church for periodic offerings and special events to be an obligation as well. For some traditionally religious families, the man is head of the household and makes all decisions, challenging the mutual-partner assumptions that counselors tend to make about married couples. Religion may affect buyers' choice of location as well, because they may be willing to consider only homes that are close to their church.

Besides the differences in people, there are differences between urban and rural properties as well. Urban borrowers are more interested in townhouses and condominiums, NCALL staff say, while rural residents want single-family houses, often on remote roads with few neighbors. The state HFA mortgage program manager adds that downstate property is more likely to need rehabilitation. A banker with extensive Sussex County experience agrees, noting that even if a borrower will be using a Rural Development loan to obtain a newly constructed home, often the needed infrastructure is missing and must be added, increasing the cost of the house. Properties in rural towns in the state are often overtaxed, he adds. Finally, he states, purchasers are more likely to encounter "not in my back yard" reactions from neighbors in rural areas, because urban residents are more used to diversity.

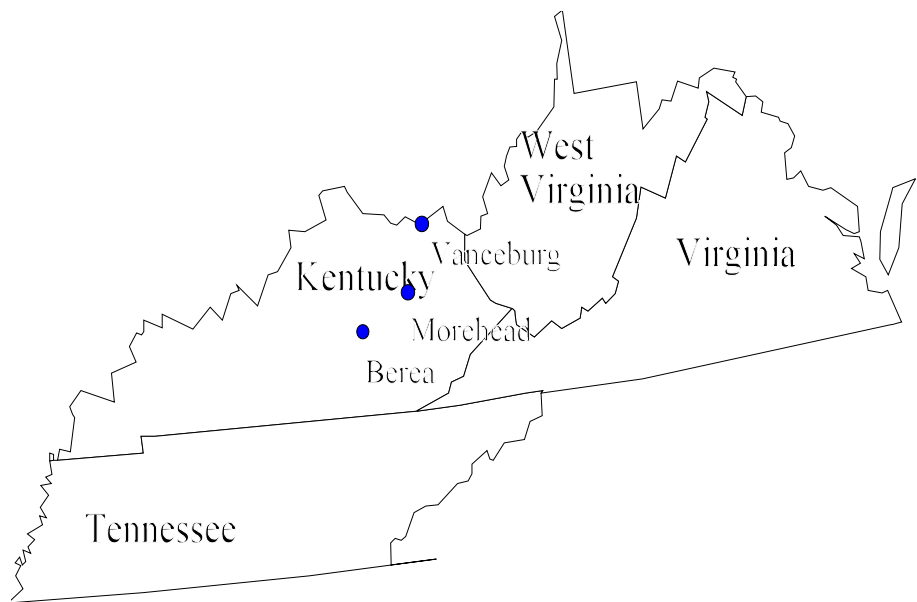
Because of the differences between urban and rural clients, a Rural Development staffperson suggests that housing counseling may well be more useful in remote areas than in urbanized places. In her experience, persons living in more rural areas need more assistance in preparing applications.

## *Federation of Appalachian Housing Enterprises, Berea, Kentucky*

The housing counseling provided by the Federation of Appalachian Housing Enterprises (FAHE or the Federation) and its member organizations provide examples of rural counseling programs designed with no requirements in mind except those of the clients. FAHE has its own loan fund and counsels only its own borrowers. Its member organizations screen applicants for FAHE loans, so they work closely with FAHE borrowers as well, although some have additional counseling programs with other sources of funds. Their approaches vary according to the needs of their clients, the personalities of the individuals providing the counseling, and organization staffs' perceptions of the needs of their clients.

### Funding and Programmatic History

The Federation was founded in 1978 and incorporated under its current name in 1980. It now has 23 member organizations\* spread through the persistently poor central Appalachian counties of Kentucky, West Virginia, Virginia, and Tennessee. The Federation's mission is to provide affordable housing to the low-income



population of central Appalachia. The overall objective of its pre- and post-purchase counseling, then, is “successful homeownership,” defined by staff as “keeping families in homes.” FAHE views counseling as an essential component of its loan program, and lists counseling as one of five basic housing costs, along with land, labor, materials, and financing.

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\* When this research was conducted in 1995, twenty organizations were full members and three were associate members. All were nonprofit 501(c)(3) organizations or housing authorities with broadly based, locally controlled boards, committed to quality construction and to serving low- and very low-income persons. Associate members may be still developing their boards, staffs, housing experience, and financial management and reporting capabilities, whereas full members must have demonstrated their qualifications in each of these areas. New Federation members must be associate members for at least one year before applying for full membership. Associate members may speak in Federation meetings but do not vote. FAHE has affiliate members as well, such as banks and organizations that do not produce housing.

FAHE's revolving loan fund was created in 1981 when interest rates were rising rapidly and local development funds were needed. It made its first home purchase loan in 1985. In 1989, when the organization hired its fourth staff person, the loan fund had \$1 million. In 1995, there were 14 employees and \$10 million in three state-based loan funds, available for borrowers in Kentucky, West Virginia, and Virginia. (Just over \$7 million of the total is borrowed from other sources.) In those 10 years of mortgage lending, FAHE had made over 300 loans to 250-300 families (some families received more than one loan).<sup>\*</sup> FAHE holds and services all the loans it makes.

Loans are made for home purchase or rehabilitation to families with low incomes (80 percent of median and below), focusing on those with incomes below 60 percent of median. Some borrowers have incomes up to 115 percent of median, when a FAHE loan is used in conjunction with another program serving that income range (FAHE loans often supplement financing from other housing assistance programs). FAHE loans carry a note rate of 8 percent, but monthly payments are not calculated based on an interest rate. Rather, for most borrowers, the payment on the FAHE loan is whatever amount results in the borrower paying 20 percent of income for principal, interest, taxes and insurance. The typical term for a loan to purchase a newly constructed home is 20 years, or up to 30 years if necessary to make the home affordable, and for rehabilitation 15 years, or up to 20 if necessary. Borrowers must provide the land on which their homes will be built or a \$300 down payment, and must be able to pay some closing costs.

FAHE is involved in other efforts besides lending and housing counseling. These activities include development of (to date) limited numbers of both rental and ownership housing. FAHE also created the Central Appalachian Peoples Federal Credit Union (CAPFCU), which has recently become a member of the Federal Home Loan Bank system and a HUD-certified lender so that it can use the Affordable Housing Program and package loans for the Kentucky Housing Corporation (the state housing finance agency). FAHE, CAPFCU, and the Human Economic Appalachian Development Corporation recently created AppalBank, a community development financial institution intended to coordinate and enhance the financial services of its three founding partners.

Two of the Federation's 14 staff persons work full-time with pre-purchase clients (whom they call simply "families"). Their responsibilities include not only explaining the program to the client families, but also inspecting the homes to be purchased, most of which are newly constructed by member organizations. Post-purchase counseling is carried out by a loan fund servicing staff of one and one-half employees who are responsible for a variety of accounting and other functions as well as keeping track of outstanding loans. FAHE does not seek funding specifically for its counseling activities, either from outside sources or from charges to clients. The Federation views counseling as an integral part of their overall homeownership program, not something that is offered or funded separately.

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<sup>\*</sup> A FAHE financial report dated June 30, 1995 shows that 572 loans had been made to date over the organization's history, and 446 were then outstanding. These loans, however, included some for rental housing and some to nonprofits, as well as over \$10 million worth of homeownership loans.

FAHE staff have never seen a need to obtain certification from HUD or any other third party, or training from an entity like the National Federation of Housing Counselors (NFHC) -- presumably because FAHE works only with persons obtaining loans from its own loan fund and does not apply for counseling funds from sources that require third-party certification. Some of the Federation's members have received such certification and/or have sent their counselors for training from the NFHC or Cooperative Extension Service because they work with clients obtaining loans from lenders besides FAHE, or because their funding sources have required certification or training. Members' counseling programs vary widely, from relatively structured classes to informal conversations in offices or homes with a staff person whose job title may be "administrative assistant" but whose duties include packaging loan applications and helping first-time purchasers through the mortgage process.

FAHE's loan funds have grown over time, so FAHE and its member groups are now providing pre-purchase counseling to many more families than previously, and FAHE now sees a need for a certain amount of standardization among the member groups, as well as a need to assist them with their counseling work. To that end, FAHE has obtained funds from the James C. Penney Foundation and the Kentucky Housing Corporation (KHC) for counseling research. (Most of the research was still underway when this case study was conducted, but some preliminary findings and drafts were available.) The Federation is surveying its members about their counseling programs, and has reviewed the guides and manuals available to be used in counseling programs. Based on their findings, FAHE staff will develop models for programs that can be used across the spectrum of types of groups represented by Federation members. FAHE will also produce a manual that can be used by central Appalachian counselors and will provide a resource for counseled families.

The Federation does not intend to eliminate the variation among its member groups' counseling programs. The members have different emphases and administer different programs in addition to FAHE's loan program, so it is appropriate for their approaches to vary. As examples of areas where more standardization would be helpful, FAHE staff mention determining homeownership readiness and presenting budgeting information. FAHE will expect members' staff to continue to apply their expertise and their personal judgments about individual borrowers, however.

FAHE does not plan to train member groups' staff. FAHE has prepared manuals for members' staff on using FAHE's loan funds, and is revising those manuals, but staff resources preclude doing manuals for other programs. The manual to be produced as part of the Penney/KHC project will be for FAHE's low-income borrowers rather than for member organizations. It will be given to purchasers when they move into their new homes, and will provide them with information about maintenance, saving energy, shopping wisely, budgeting, and the like. FAHE staff point out that even basic maintenance information cannot be entirely standardized, however,



because some of the systems and materials are different even among homes newly constructed by FAHE members.

### *Housing Counseling Clients and the Types of Counseling Provided*

#### Pre-purchase Counseling

Pre-purchase counseling for FAHE borrowers is provided both by FAHE staff and by member organizations.\* To gain an understanding of how the counseling process works, one must first understand how FAHE's lending process works and how FAHE and its members relate to each other.

Local member organizations have the first contact with potential FAHE borrowers. Generally, it seems, member groups do not advertise their services; persons needing housing assistance hear about local groups from neighbors or are referred by other social service agencies. The degree of formality of intake and screening procedures varies among the members. Members' staffs describe the FAHE loan process to eligible families and begin working with them to determine whether they are "homeownership ready." This concept includes understanding the obligations involved in obtaining a loan and demonstrating an ability to care for their current home, as well as having an interest in purchasing the size and type of house that FAHE and its members provide (a modest, energy-efficient home, generally of the type built under the Rural Housing Service Section 502 program). FAHE asks its members not to reject an interested family with credit problems or inadequate home maintenance skills, but rather to work with them over time to help them prepare to qualify for a loan.

Member groups help qualified borrowers prepare applications for FAHE funds, which include budget forms and evidence of family income. Member groups also evaluate families' proposed building sites and surrounding areas.

FAHE has an underwriter on staff, who evaluates the applications. If a request seems likely to be approved, one of FAHE's inspector/counselors will meet with the would-be borrower. Staff do not mention saving time or travel costs by not meeting sooner, but instead focus on not disappointing an applicant who probably believes that the more meetings they have, the more likely their loan is to be approved. FAHE staff invariably travel to their clients; they do not ask clients to come to Berea, which is as much as nine hours' driving time from some of the communities in the Federation's service area.

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\* Some of FAHE's member organizations provide pre-purchase counseling in other contexts as well. For example, the Randolph County (West Virginia) Housing Authority counsels families participating in a HUD-funded program enabling first-time purchasers to buy rehabilitated homes.

At the first meeting with a new borrower, a FAHE staffer examines the proposed home or site and meets with the borrower, both to make a further evaluation of their readiness for participation in the program and to provide them with information. The FAHE staffer explains again what the Federation is and how the loan works, including reviewing loan documents with the applicant. Depending on what the borrower seems to need, staff may read the documents aloud in their entirety, or simply summarize them. Sometimes borrowers insist this is unnecessary because they trust the local housing organization, but FAHE staff believe it is important for borrowers to understand what they will sign, if only to help them become more informed consumers about loans in general. (Some pay up to 33 percent interest to finance furniture and other items, not realizing how much the interest adds to the total amount they will pay over time.) This initial session takes an average of four to five hours, including driving time, one FAHE counselor estimates.

When the second counselor/inspector began her job, some of the local organizations suggested she did not have to meet with every borrower family as her predecessor had done. It should be sufficient, they thought, to mail the documents for families to read on their own time. She experimented with that approach but, when several loans fell through after she merely mailed documents to the families, she decided personal meetings were indeed essential.

The same counselor says she has learned that she must put some emphasis on the negative aspects of obtaining a mortgage. She will explain that the note rate is 8 percent, although it is subsidized, and that borrowers could have to pay the full rate under some circumstances. She will state firmly that FAHE will have the option of foreclosing on a defaulted loan, and may exercise that option. She will point out that payments will be primarily interest at first rather than principal. This “negative” information, she believes, is balanced by the positive aspects of the arrangement, and does not believe she has ever scared away a potential borrower, although some have withdrawn from the process believing that it is too good to be true.

The next step is loan approval or disapproval by one of FAHE’s state-specific loan committees. (The committees’ compositions vary among the three loan fund states; they are comprised of board, staff, and in one case some non-member bankers.) The member organization meets with the applicant to explain the decision and what happens next. For approved loans, loan closing centers on two legal documents: a promissory note stating the interest rate is 8 percent per year, and an interest credit contract setting forth the actual amount the borrower will pay (unless their income rises or they default), and requiring them to maintain the house well. Understandably, borrowers tend to be confused by the apparent contradiction, even though it has been explained early in the application process.

Loan closing is followed by construction or rehabilitation of the home. In Kentucky, FAHE staff estimate about 80 percent of their borrowers are moving into newly constructed homes. Before the HOME program was instituted, that figure was close to 95 percent, because funds were not available for rehabilitation. Now Federation members use HOME funds to rehabilitate houses for purchase. This concept works in other states as well; for example, the Randolph County Housing Authority in West Virginia has used HUD funds to purchase and rehabilitate homes for

sale, then arranged mortgage funding through banks, a state fund, or the FAHE loan fund. While rehabilitation may seem desirable to preserve existing housing stock, FAHE staff point out that often it is more cost-effective over the long term to build a new home for \$40,000 than to rehabilitate for \$25,000 and then have to rehabilitate again in a few years.

FAHE staff may see the borrower during construction, and the local member organization certainly will. When construction is complete, FAHE staff will return to inspect the house and explain maintenance tasks to the buyer. Occasionally FAHE's counselor/inspector will see the borrower again after they have moved in, for example if site work was not completed at move-in, or if the family needs more help with budgeting. For the most part, however, after move-in the borrower will have contact with the local organization or FAHE's loan servicing staff, and only if the borrower calls with questions or does not make payments on time.

The specifics of FAHE members' counseling programs may be best understood by examining two housing producers in Kentucky whose counseling activities are carried out in slightly different ways. The larger, Frontier Housing, Inc., serves five rural counties in northeast Kentucky (Bath, Carter, Elliott, Rowan and Fleming). The largest city in the region is Morehead, with a population of about 8,500. Frontier builds and rehabilitates homes, providing mortgage financing for their low- and very low-income clients through FAHE's loan fund or funds that Frontier itself administers. Frontier's mortgage funds are derived from the HOME program, the RHS Housing Preservation Grant program, and private donors. The organization's objectives, according to its director, are to provide decent housing for local residents, to package the financing for their purchases, to keep them successful as homeowners, and to keep Frontier itself in business.

People's Self-Help Housing (PSHH, pronounced "push"), a FAHE member based in Vanceburg, Kentucky, serves Lewis County, adjacent to Frontier's service area. When PSHH was founded in 1982 it was based to some extent on Frontier as a model. PSHH's director says that employment and resources are even less available for his clients than for Frontier's. Lewis County has no coal and little industry, so suffers persistently high rates of poverty. There is no shopping mall, WalMart, or K-Mart in the county, and no hospital. PSHH's primary objective is to provide safe, decent, and affordable housing for low-income residents of Lewis County. Its secondary goal is to improve residents' lives by providing needed services. For example, it is currently developing seven units of transitional housing for homeless families, and will provide services for those living in the units.

PSHH, with four office staff and ten on its construction crews, provides a variety of housing-related services for its clientele. Like Frontier, it constructs new homes for FAHE borrowers. It has made three purchase loans with its own funds as well, although it usually uses its funds for rehabilitation loans. PSHH owns 15 units of affordable rental housing in three sites, administers a tenant-based rental assistance program, operates a homeless shelter containing three

apartments, and is developing transitional housing units. (Despite its name, PSHH does not undertake construction or rehabilitation using sweat equity.)

The differences in Frontier's and PSHH's service areas may lead to a difference in their clientele. Frontier staff say that while the majority (seven out of ten) of its rental units are occupied by female-headed households, most of its purchasers are married-couple families. PSHH staff, in contrast, estimate that more than half their clients are female-headed households. Many are single women with children, but a number of them are elderly widows living in substandard housing.

Because Frontier and PSHH insist that their clients purchase only homes that meet national building codes, all their home purchase clients obtain homes newly constructed by them.\* Existing homes generally do not meet codes, staff say; only two town governments in Frontier's five-county area enforce codes, and PSHH's director says Lewis County does not have a building code. (The state legislature is considering adoption of a statewide code.) Frontier staff say they keep costs as low as possible by using volunteer labor (Frontier does have 20 paid staff, most of whom do construction work), obtaining donations of materials, land, and buildings, and asking local governments to waive fees for its clients. Both Frontier and PSHH emphasize quality and ease of maintenance in their construction.

Most of Frontier's and PSHH's clients learn about the organizations by word of mouth. Some are referred by social service agencies or schools. Both agencies occasionally place an eighth-page or quarter-page announcement in local newspapers, or send out a press release announcing a new grant that will result in an article and then some interested applicants. PSHH's director notes that although the organization has rarely advertised its services, demand is high enough to require a waiting list. If it were to advertise, PSHH would rely primarily on radio rather than newspaper notices; staff say their clients are more likely to listen to the radio than read the newspaper.

Frontier staff talk to potential borrowers by phone or, if they come to the office, in person, determining whether they meet Rural Development or HOME program income criteria. If so, then Frontier mails them applications for Frontier/FAHE and Rural Development assistance. Frontier also includes a copy of the FAHE commitment letter because they expect clients will want to raise questions about the information in the commitment letter.

The next step in Frontier's process is a one-session homeownership class.\*\* Families are

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\* Frontier's director explains that almost the only existing housing in the area that meets code is RHS/Rural Development housing, and interested purchasers can apply directly to Rural Development to purchase it. Frontier does package Rural Development loan applications (without remuneration), although in calendar year 1995 it did only one because Rural Development had very few funds available.

\*\* In the early 1990s, Frontier had a housing counseling arrangement, funded by the Lilly Endowment, with Bethany House, a social service agency covering part of Frontier's service area. This

required to attend a class before Frontier will prepare an application for them. The class is held sporadically, whenever there are between four and six interested families, at the Frontier office, and is taught by a Frontier staff person. Frontier's executive director has been leading these classes, but is training another staffer to do them as well. Both have also obtained third-party training. One is a HUD-certified counselor, and one has received training in packaging Section 502 loans from FAHE and the Housing Assistance Council.

The classes, which last about an hour, focus on an explanation of the process of application, closing, and construction. They include warnings about borrower performance as well: Frontier's director says he tells applicants Frontier will work out payment problems that arise during the loan term if they have paid consistently and then encounter a problem, but not if they have been "deadbeats." Classes are useful because participants ask questions that help each other, Frontier's director explains, since one person may think of something another did not. In addition, having classes rather than individual conversations saves staff time.

After the class, each applicant family has an individual session with Frontier's executive director. It takes about an hour to prepare an application. If someone does not yet qualify for a mortgage, or needs to improve their credit record, Frontier will help them establish goals and suggest they come back in a specified period of time, perhaps four months, or perhaps a year. Frontier staff do not call families to check on their progress or to encourage them to return, believing that pressuring families into the program is not appropriate.

Unlike Frontier, PSHH does not present any of its housing counseling information in classes. A staff member with experience, but no formal third-party counseling training, works on funding applications and other paperwork with potential borrowers. Some -- mostly age 50 or older -- are illiterate, but PSHH staff say even those who can read often do not have high school degrees and are intimidated by forms. They may not be able to do the simple arithmetic needed to calculate

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project was the first venture into housing counseling for Bethany House, which previously had provided services such as clothing and emergency food. Under the agreement with Frontier, Bethany House took pre-application information, identified potential buyers, and provided a series of three homeownership education classes. An outreach worker employed by Bethany worked with individual families as needed on problem areas, financial or otherwise. In its early stages, this program seemed so promising that FAHE staff planned to use it as one of their models for member organizations. The cooperation between Bethany House and Frontier Housing did not last, however. The organizations eventually had a falling-out because their "philosophies" were different, says Frontier's director. The problem seems to have been at least partly a personality conflict between individuals. While their formal counseling arrangement has ended, Bethany and Frontier do still refer clients to each other as appropriate.

their own budgets. Like very low-income people in other areas, they do not value this type of formal education, PSHH's director explains.

About one in five of PSHH's interested applicants actually qualifies for a FAHE loan, according to PSHH staff. It takes about eight hours of staff time per applicant to reach the point where eligibility is determined. To decrease that time investment, PSHH will soon get computer software enabling staff to perform instant credit checks; staff expects that some applicants will screen themselves out more quickly if they see their credit problems sooner. PSHH's director says the organization believes in working with entire families, not just individuals. He finds it frustrating that men often wait outside in the car while their wives come in to the office to fill out a housing application. The local culture, he says, tends to be matriarchal.

Staff work intensively and directly with home purchase applicants, who tend to ask many questions. Staff provide whatever assistance is needed, not just housing and credit information. For example, when confusion over the ownership of a parcel of family land prevented approval of a couple's request for a loan to build a new home, a PSHH staff person spent many hours over a period of two months tracing deeds and clearing the title to the land. Staff will also act as an intermediary for clients, for example calling collection agencies to set up payment schedules for overdue debt. PSHH's director estimates that about half of PSHH's home purchase clients call the office every day while their homes are under construction, seeking progress reports and reassurance. PSHH has seen no need to obtain formal third-party counseling training for its staff. The director jokes that experienced staff train new staff by telling stories.

Credit is, of course, a major part of the application process, and a major stumbling block for many applicants. Frontier's director believes debt management is a societal issue in the entire United States, not just a problem for low-income people, because no one receives any real education on managing debt. Frontier finds its clients generally do not know what interest rate they are paying on their car loan or other installment loans. To help educate people about consumer credit, Frontier staff ask them to find out what their interest rates are.

The additional time Frontier and PSHH staff spend with clients depends on the needs of each client. For example, Frontier staff say that if a family does not own or have access to land on which their home can be built, staff will help them find a lot. Then staff works with the family to make choices about the house itself. The family selects among several floor plans, all of which have modest sized rooms. The number of bedrooms is determined by the number of people in the family. The purchaser selects the colors of their vinyl siding, interior paint, carpet, and appliances from a range of choices available. One Frontier employee spends about 25 percent of his time updating blueprints and making design changes to customize homes for families. For example, he has prepared changes to make a house wheelchair-accessible.

Before the loan closing, Frontier sends its families copies of all the documents they will see at the closing. They may not read the documents in advance, but Frontier staff believe it is important to give them the opportunity, and to show them what they can expect at the closing.

In addition to preparing clients financially for ownership, FAHE and local members always provide maintenance information. When Frontier's families move in, Frontier gives them a package of information developed by Frontier staff about maintenance and warranties. Maintenance tips are listed on four pieces of paper, and an additional easy-to-read sheet of paper summarizes not only the one-year warranty Frontier provides on its own construction, but also warranties provided by the manufacturers of appliances and other materials. PSHH provides maintenance information for families moving in, as well, primarily in the form of a walk-through with explanations about circuit breakers, shut-off valves, and the like. The PSHH counselor who works with the agency's renters says they sometimes need extremely basic maintenance information -- she has received calls asking how to change light bulbs.

### Post-Purchase Counseling

FAHE staff call their post-purchase work "servicing," but it can also accurately be called counseling. Again, both FAHE and the member organizations are intimately involved. Pre- and post-purchase counseling do not exactly form a continuum, because the post-purchase counseling is even less formalized than the pre-purchase education, and because different people on FAHE's staff handle the two aspects. Strong continuity is provided for borrowers, nevertheless, by local organizations' staff.

FAHE's servicing includes everything that happens after loan closing, according to FAHE's finance director, beginning with preparing a coupon book and explaining its use to the new homeowners. Then the Federation collects payments, keeps records, collects escrow for taxes and insurance, pays taxes and insurance, and works as needed with any borrowers who fall behind. There are established procedures for all these steps. For example, borrowers are told explicitly they must make their monthly payments by money order, cashiers check, or their own personal check, but not cash. FAHE finds that few people with incomes under \$10,000 have checking accounts, and many are used to paying bills in cash and in person.

FAHE acts quickly if a payment is not received on time. If a payment does not arrive by the due date, on the 10th of the month FAHE sends a postcard to the borrower. Ten days later, they send a letter. On the 25th of the month, they call the local group, which must agree to visit or call the delinquent borrower. On the 30th of the month, FAHE sends a certified letter. On the 10th of the second month, FAHE sends a second certified letter and the local group must visit the borrower. The goal is to have some resolution in place after 60 days, either a workout plan or the initiation of foreclosure proceedings.

The policy for bounced checks is stringent as well. Each returned check incurs a \$15 charge, unless FAHE staff believes a waiver of the fee is warranted. If a borrower bounces two checks within one 12-month period, or three over any period, FAHE will no longer accept personal checks from that borrower.

The philosophy underlying their servicing work, FAHE staff explain, is to keep families in homes. They say they recognize the limitations of their borrowers' incomes, and do not expect the borrowers' finances to become "middle class." For this reason, staff say they do not feel uncomfortable pursuing their very low-income clients for payments. They made sure in advance that the homes were affordable for their purchasers, they say, and so they can expect borrowers to consider this their most important payment. If one family is not interested in making those payments, someone on the waiting list will be. Staff walks a fine line between firmness and harshness, says FAHE's finance director. He believes they probably do make mistakes in underwriting occasionally, but he is willing to give borrowers the benefit of the doubt. All FAHE's letters offer help and ask the borrower to contact them. Still, they often find that delinquent borrowers do not contact them even when invited to, and respond better to a visit from a local organization's staff person whom they know well than to a call or letter from FAHE staff.

Neither Frontier nor PSHH makes an organized effort to keep in touch with all of its FAHE borrowers unless they request help or miss a payment. PSHH's director says he sees people in the grocery store and other places "around town," so he keeps up with them informally. Similarly, Frontier's director says living in the community where he works "keeps me honest" because he sees his clients often; he believes this is one of the positive things about living in a rural area. Both PSHH and Frontier do receive calls from borrowers with questions about maintenance or repairs. PSHH provides maintenance, charging \$20 plus the cost of parts. Frontier makes some repairs and if they cannot handle the request, they will refer the family to another agency that can. Frontier does provide ongoing assistance to one family: to make their payment to FAHE every month, an illiterate couple purchases a money order and brings it to Frontier to fill it out properly.

When a family is having trouble making its payments, FAHE asks the local member organization to sit down with the family and prepare a budget. This serves several purposes. First, it provides a way to see what has changed about the family's finances. An initial budget indicated the family could afford the payments it now cannot make, so FAHE wants to identify any changes. If something outside the family's control has happened, FAHE is willing to work something out, believing that low-income families are more likely to fall behind in their payments but also more likely to bring themselves current than are middle-income families, because they have experience catching up on debt and working out payment problems. FAHE's experience bears this out, since a large proportion of their delinquent borrowers have worked out and met repayment plans.

If a family has persistent payment problems, Frontier staff asks them to come to the office and review their debt structure to see whether their financial situation has changed and why. The interest credit provides leverage for working out a payment plan, Frontier's director says, because withdrawing it is an effective threat. He has on occasion switched a borrower from an interest credit arrangement to paying full interest. As of September 1995, none of his borrowers had lost a home yet, although he suspected that one who "developed a drug problem" might eventually.



Some families begin having financial problems immediately after they move in to their new home, FAHE staff say. An “adjustment period” is needed, says the rural Kentucky native working as an AmeriCorps volunteer to develop FAHE’s post-purchase manual. The family’s mortgage payment and utilities may be either higher or lower than their previous bills, but even if those obligations are reduced people often risk damaging their budgets by, for example, buying new furniture for their new home. Staff is considering whether it would be useful and feasible to work more intensively with buyers during that early post-purchase adjustment period.

FAHE has limited funds available to provide financial assistance to certain borrowers who are delinquent due to a financial crisis. Those receiving this aid must have good credit histories. FAHE’s Kentucky mortgages have a financial cushion as well. Because the mortgage documentation is prepared before the home is finished, the mortgage amount must be large enough to include a cushion for unforeseen construction issues. In practice, the cushion can also be used if a financial emergency arises for the family or if they want to make a further improvement on the home during the loan term.

The entire servicing system works, FAHE’s finance director believes, only because of the personal relationship the borrowers develop with their housing providers, particularly the local FAHE member organization. He says it is crucial that when someone arrives on the doorstep to ask why a payment is late, it is someone from the same or a nearby community whom the borrower knows. Because familiarity and local identification are so important -- as well as FAHE’s frequent reliance on members’ personal judgment about applicants’ homeownership readiness rather than on standardized underwriting -- FAHE staff has not attempted to find or create a secondary market for its loans.

The significance of relationships also makes the provision of counseling both pre- and post-purchase important. FAHE’s servicing staff can see how the information provided before purchase bears directly on payment records after closing. In addition, borrowers’ impression of FAHE, and therefore their willingness to work with FAHE staff later if help is needed, is established by their pre-purchase contacts. The finance director is trying to develop materials that will give families specific expectations of what happens after purchase, so that staff will have something in writing to rely on when purchasers claim not to have known about something.

### Tenant/Homeless Counseling

Since the counseling performed by FAHE staff is all linked to FAHE’s mortgage loan program, FAHE staff do not counsel tenants or homeless families. Many of the Federation’s member organizations do provide counseling for persons in rental housing or shelters. Surveying the activities of all 23 members was beyond the scope of this case study but, again, reviewing the activities of Frontier Housing and PSHH indicates some of the variety among members.

Frontier has a small rental housing program. The agency rents out ten single-family homes it built in two counties with HOME funds. Frontier staff do some counseling with applicants for these units, mostly about credit-related issues, before they move in. Although Frontier manages

the units, it does not attempt to provide ongoing counseling to the tenants after they occupy their homes.

PSHH, on the other hand, has worked intensively over time with tenants in Lexington Avenue Apartments, a building it developed in Vanceburg. The building, a vacant former hardware store, was turned into ten rental units. The resident households average about \$7,500 annual income. The units are not affordable for very low-income families; the rents are not subsidized, but are extremely low (\$90 for a one-bedroom unit) because purchase and rehabilitation of the building was funded by the HOME program. PSHH uses rents only to cover operating expenses and to provide tenants with the self-esteem that comes from financial responsibility. Any savings on the operating costs budgeted for one year result in lower rents for the next year, so tenants have a strong interest in helping to take care of the building.

Attendance at tenant association meetings is required for all residents. The group initially met once a month, but towards the end of the first year in the building the meetings were being held every two months. At the meetings, PSHH staff say, tenants talk about what is going well in the building and about what could be better. For example, at one meeting the tenants asked PSHH staff whether peepholes could be installed in their doors. They were. Agency staff tell the tenants how to help themselves whenever possible -- they told tenants what city authority to call when drivers came the wrong way down the adjacent one-way street. Tenants are not required to help each other, but they do, possibly as one result of the community feeling fostered by the tenant association. That feeling is also strengthened by the newsletter PSHH staff publishes every month for the tenants.

PSHH's tenant counselor believes she has been able to accomplish more with the Lexington Avenue tenants than with the residents of Oakview, PSHH's four-unit rental building, for several reasons. Oakview relies on project-based tenant rental assistance from the Kentucky Housing Corporation (KHC, the state housing finance agency). KHC, rather than PSHH, maintains the waiting list, so PSHH is not able to fill vacancies as quickly as it would like to. Because PSHH does not control the rents, it cannot offer the sense of community and incentive to maintain the building provided at Lexington Avenue by lowering rents in response to operating savings. The turnover rate has been higher at Oakview than at Lexington Avenue. There is no tenant association at Oakview, but PSHH staff plans to start a newsletter.

PSHH staff provide one-on-one budget and credit counseling for all of the organization's tenants. The tenant counselor, who was trained as a credit counselor in a previous job as a loan officer, says she teaches families to pay off their highest interest loans first, and to establish a savings account if they possibly can, even if they are only saving a small amount. She looks forward to realizing PSHH's future plans to give its clients access to the FAHE-founded Central Appalachian Peoples Federal Credit Union.

The Lexington Avenue Apartments are not specifically intended to provide transitional housing for those moving towards homeownership. They have functioned that way for one tenant family, however. The parents had declared bankruptcy, but proved to PSHH they were reliable in paying their rent and other bills on time, so PSHH qualified them for a FAHE mortgage loan and built a house for them to purchase. Another married couple with children moved into their vacated apartment and out of PSHH's homeless shelter. They could afford the unsubsidized rent because PSHH staff had helped the husband to find a job while living in the shelter.

PSHH provides weekly counseling sessions for the families living in its three-unit homeless shelter. A social service agency works with them on non-housing issues such as filing for divorce from an abusive spouse. The shelter supervisor is an AmeriCorps volunteer who works with families to establish housing goals and then to meet them. These families have incomes at or below 30 percent of the \$23,100 county median, and usually have been living with relatives or in a car or other inappropriate place. Sometimes they have suffered spouse and/or child abuse. Often the first step is to find an income -- to find a job, or to apply for public assistance if necessary. The shelter is considered emergency housing, and PSHH prefers that residents not stay longer than six months, but allows people to stay up to two years if necessary. Residents who have some income must pay 30 percent of it, whatever that amount is, to the shelter.

PSHH's tenant counselor travels to the shelter to meet with families living there. She meets with others in whatever location is most convenient. Those who have cars generally come to PSHH's office. She drives to other clients' homes. She helps her clients with whatever they need, including writing resumes. She does not keep track of how much time she spends with each client family or on what issues. She knows only that she has enough time to do her job properly, although she says she does postpone her accounting duties sometimes in order to focus on her counseling work.

PSHH has a small pool of funds available to help with the costs of moving to permanent housing, such as turning on utilities. For food, family counseling, and the like, PSHH staff refer clients to Christian Community Services or another social service agency.

PSHH's experience with homeless families led to a decision to develop transitional housing, apartments where families not necessarily in an emergency situation will be able to live for up to two years. Two of the planned seven units are being created by renovating a large single-family house in Vanceburg. The other five will be new construction.

An even more comprehensive approach to counseling homeless and near-homeless families is undertaken by Hazard/Perry County Community Ministries, a FAHE member serving residents of a county in southeastern Kentucky. Community Ministries' "holistic" counseling approach relies on development of a comprehensive plan to provide a "seamless" service delivery system. The organization operates a transitional housing facility with 20 beds for men, women, and children, who receive support services and education while they live there for up to five years.

Other Community Ministries clients participating in its Home Ownership Preparedness program

will be able to live for up to five years in the two apartments that constitute “HOP house.” These very low-income families will pay 25 percent of their income for rent. Staff will train them to take care of the house and yard, do maintenance, and use energy efficiently, as well as providing classes in financial matters such as budgeting, purchasing and the use of credit. All residents will be required to be in school, working, or seeking work, and children will be in school or daycare. Residents will be referred to other social service providers as necessary. The services will continue after residents move into their own homes.

### *Measuring the Success of Housing Counseling Programs*

Asked how they would measure the success of housing counseling, FAHE staff, like most others, think of closings, delinquencies, and foreclosures. Staff at FAHE and its members list a number of other possible “measurements,” as well.

FAHE staff need look no further than their own records to find statistics indicating that their post-purchase “servicing” efforts are successful. In December 1990, when the servicing program was just getting underway, FAHE’s 30-day delinquency rate was 17.5 percent. At the end of August 1995, 30-day delinquencies stood at 5.5 percent, and 90-day delinquencies at 1.4 percent. (Although servicing efforts often result in a repayment plan, loans are not recategorized; the borrower is considered delinquent throughout the repayment period.) An in-house delinquency analysis in May 1994 pointed out that FAHE’s 30-day delinquency rate was about the same as FHA and VA national rates, while FAHE serves a population with much lower incomes.

The Federation’s finance director’s goal is to have a 5 percent 30-day delinquency rate, and no one delinquent for longer than six months. While he believes a bank would not tolerate a 5 percent delinquency rate, he says different statistics are appropriate for different income groups, so he believes strongly that a higher delinquency rate does not translate to expected loss in the same way for his clients as it does in the standard banking industry, where he once worked. A middle-class borrower does not become 30 days delinquent until they have expended all their resources, including savings and other assets, he explains. Since FAHE clients have few savings or other assets, on the other hand, they are more likely to fall 30 days behind in their payments, but they are able to recover, especially given FAHE’s willingness to work with them and counsel them. As an example, he cites a woman named Pearl who was two years delinquent when he began working at FAHE, but paid \$10 extra every month until she was current. He carried her loan on the delinquency report for years, and says he was willing to “sacrifice the numbers” in order to keep her in her house.

FAHE has foreclosed on only one home in the ten-year history of its loan funds, and has accepted eight or nine deeds in lieu of foreclosure. The finance director describes the foreclosed borrower as “obstinate,” refusing to agree to work out a repayment plan. This drastic action had at least one positive side effect: other FAHE borrowers living in the same subdivision brought their payments current. FAHE resold the house to a family on its waiting list.

The “ultimate statistic,” suggests FAHE’s finance director, would be the proportion of borrowers

who pay off their loans entirely. To that end, he suggests that to obtain a measurement at any point in time one could count how many borrower families are still in their homes and, for those who are no longer in those homes, look at the reasons why. If a family's reason for leaving its home could have been overcome by counseling but was not -- because of failure to work out a repayment plan for a family with unexpected medical debts, for example -- then counseling would have failed in that instance.

As stated above, "successful homeownership" is the stated goal of FAHE's housing counseling efforts, and staff define a successful homeowner as one who is living in his/her home and making payments, even if s/he has fallen behind on those payments and is now on a repayment plan. Similarly, PSHH's director suggests that success is living in the home for five years and keeping up with the payments. Success, he says, also means things like children graduating from high school. Housing conditions can be directly related to how far children go in school, he explains. For example, children who do not have indoor plumbing (still a real possibility in rural Appalachia) and cannot take regular baths may be teased by other children and therefore be so unhappy in school they will drop out.

Others suggest that successful counseling could be measured by clients' improvement in other non-housing areas as well. For example, one of Frontier's staff persons has found that she can often help clients with non-housing debt problems. They may not understand what information a collection agency needs to work out a payment plan for a delinquent debt, and collection agency staff will not take the time to sit down and explain what the agency wants and why. Frontier staff will take that time, resulting in a resolution of the debt problem and a better informed consumer.

One of FAHE's counselors proposes that the success of pre-purchase counseling could be gauged by the number of calls later received by member groups about issues such as maintenance. If the calls are about topics covered in counseling sessions, then counseling was not successful. Similarly, when issues arise after closing about payment amounts, servicing, and the like, and clients claim they were never told something that a counselor did tell them, the counseling could be considered unsuccessful. FAHE staff mention this problem as one reason to provide more information in writing. Written material not only provides a reference for clients, but also enables FAHE to point out that the information was delivered earlier, and then to move beyond arguments to developing a solution to the misunderstanding.

The suggested possible measurements for the success of counseling tenants and homeless families are similar to those for purchasers: consistent payments and improvement in general life situations. PSHH's tenant counselor has not compiled data on her tenants' payments, but says it is clear that those who receive counseling have better payment histories. While counseling has been optional for tenants receiving HOME-funded assistance from PSHH, she changed that aspect of the program in PSHH's most recent application to make counseling mandatory. She believes there is a difference in those who obtain counseling and those who do not. She acknowledges, however, that the differences she sees under the present system could be the differences that cause some tenants to request counseling, rather than results of the counseling,

and she realizes that when counseling is required, those who do not have the initiative to do it will drop out of the program altogether. She is horrified by the suggestion that one could purposely withhold counseling from half of an evenly matched group for research purposes.

### *Differences in Rural and Urban Housing Counseling*

None of the people interviewed for this case study have housing counseling experience in an urban context, so they cannot compare rural and urban counseling needs the way interviewees in Delaware could. All, however, make strong statements about the particular needs of their clients and the way in which those needs can best be met. Some grew up in Appalachia, while others are from other parts of the country, but all emphasize the need to be sensitive to the culture within which they work.

For the most part, FAHE and its member organizations are convinced that for their clients counseling must be one-on-one rather than in classes. They generally say, too, that it is preferable for the counseling to take place in the applicant's home. FAHE's borrowers tend to be intimidated by formal settings such as banks and even a "community room" in a shopping mall, says one staff person. Another broadens the statement, asserting that people are intimidated by groups, even groups of other residents of their own towns. A group of local mortgage applicants would include people who attend different churches and do not communicate well with each other, he states.

There are practical difficulties in scheduling classes as well. FAHE member groups work with few applicants at any one time. Also, rural residents without cars have serious transportation problems. Finally, while some post-purchase topics like maintenance might lend themselves to classroom presentation, homebuyers lack motivation to attend classes after they have moved into their new homes.

FAHE and its members find their counseling works best not only if it is individualized, but also if it is presented by a person and an organization identified with the borrower's local community. Local connections and personal relationships are still much more important in most rural areas than in most urban communities (with some exceptions, of course, such as urban enclaves of immigrant cultures). Many borrowers are intimidated by FAHE because it is not local, even if it is merely in a different part of Appalachia. FAHE staff differ somewhat in their interpretation of the degree of intimidation present, however. One counselor believes that when borrowers ask few questions that is usually because they understand the information being presented to them, but another suggests that borrowers may be overwhelmed by amount of information presented, and unwilling to ask for clarification.

As noted above, borrowers are much more likely to contact their local organization than FAHE if they have loan problems or questions, and are more likely to respond when the local organization contacts them if they have fallen behind in their payments. This is in part because they respond best to personal contact, and are not likely to take action in response to notice by mail or even by telephone. Too, many FAHE borrowers do not have telephones at home. They may provide a telephone number, but FAHE staff have found when they try to call borrowers they are often reaching a neighbor or a workplace where the borrower cannot be reached immediately or cannot talk freely.

A staff person at Frontier Housing suggests that FAHE borrowers' comfort levels probably benefit from working primarily with only a single agency -- the local member group -- for their loan, counseling, and construction. Counseling takes less time under this kind of arrangement, as well, because it does not need to cover some of the topics covered in many homebuyer education classes, such as working with a realtor and shopping for an appropriate home. In fact, this staffer believes that rural counselors' ability to spend time with their clients and work closely with them could prove to be an important advantage to rural housing counseling.

The importance of community affects FAHE's borrowers' attitudes about their homes as well. For example, it is not unusual for a PSHH home rehabilitation client to ask for their front porch to be fixed before their bathroom. More importantly, FAHE's finance director says he has learned he can "expect more" from borrowers whose homes are on family land they do not want to lose to foreclosure. PSHH's director mentions that his clients tend to have extended families and to have been in the area a long time. He believes urbanites are more transient, moving every two or three years, and therefore less invested in their communities. This attitude extends to his work as well: he views PSHH's activities more as neighbor helping neighbor than professional helping client.

While community and family ties are often cited by city residents as advantages of rural living, there are disadvantages to the "culture" local housing organizations experience. For example, as noted above, PSHH's director says his clients value education in areas such as the Bible, but do not value the kind of "formal" education that would make preparing budgets easier. Many FAHE borrowers have poor reading skills and do not have what one FAHE staff person calls a "research mentality" that would enable them to learn effectively from written materials. FAHE's decision to prepare its own manual for purchasers was based on its determination that existing manuals were inappropriate. They describe other manuals as having an "urban bias," or being "corporate-looking." Their manual will be written in short, "easy" sentences, using an "easy" vocabulary, and illustrated. FAHE hopes to model it partly on another organization's counseling manual written in "very basic language" with pages color-coded to denote particular kinds of information such as home maintenance tips and community assistance resources.

FAHE's manual also will emphasize different topics than most others. Other manuals usually emphasize shopping for a home, a subject irrelevant to the vast majority of FAHE's borrowers, who purchase newly constructed homes. FAHE's focus will be on budgeting instead, and will include information about dealing with changes in the family budget after moving into the new

home.

FAHE's ultimate goal in preparing materials, staff say, is creating a "lifetime resource" for their borrowers. They are considering whether this resource should include a video as well. Although their clients generally have very low incomes, almost all have VCRs. FAHE staff do not believe a video alone could provide sufficient housing counseling, but they suspect a video could be helpful to reinforce the information presented in other formats.

This "lifetime resource" idea is part of a trend, occurring among Appalachian housing providers as well as nationwide, towards more holistic programs that include housing among a number of other forms of assistance. FAHE is not yet providing holistic assistance, but is considering how to improve its work in that way. PSHH's director already says he views his work as dealing with families' entire life situations as well as their housing. Towards the same end, high schools in the area often offer "life skills" classes, and at least one FAHE staff person would like to see those classes include more budgeting and housing information.

A number of urban-rural differences mentioned by FAHE and members' staffs are not culture-specific. For example, rural low-income families have lower incomes than urban low-income families. As a result, one staff person points out, urban people get credit card offers in the mail, whereas a large number of FAHE's clients have no banking experience at all. The sometimes wide geographic distances encountered by a single agency are a uniquely rural factor as well.

The emphasis FAHE and its members place on constructing new homes for their borrowers is also a result of specifically rural conditions. There are few existing homes available for borrowers to purchase, and those are usually substandard. Cities can be expected to have building codes, and to undertake at least some enforcement activities. But Frontier's and PSHH's experiences demonstrate the results of the lack of building codes or the lack of enforcement in rural areas.



## CONCLUSION: MEASURING THE SUCCESS OF RURAL HOUSING COUNSELING

### *The Practitioners' Perspective: Unmeasured Success*

Most rural counseling agencies suggest that a program succeeds if its participants purchase homes and are able to maintain their payments. They would not expect all successful participants to purchase immediately, however. More significantly, perhaps, they are not concerned with whether delinquencies and defaults for their counseled populations are lower than those for some other group of purchasers. Perhaps because they know their clients and view them as individuals, they see success in absolute rather than relative terms: if the very low-income Smith family can keep making monthly mortgage payments, counseling the Smiths was successful. They argue, too, that delinquency rates for low-income owners should be expected to be higher than those for purchasers with higher incomes, and that it is not appropriate to apply the same standards.

Familiarity with individual clients also means that counselors can see what their clients have learned, even if they do not measure it. They do not believe they need the kind of quantitative data that researchers have sought to gather. One agency director, for example, says he has never seen a report proving counseling's effectiveness, but he asserts unequivocally that counseling is "vital" to make purchase programs work for lower-income people. Another believes it would not be fair to provide her program participants with subsidized mortgages without providing counseling as well. Omitting counseling, she is convinced, would "set them up for failure."

Rural counseling agencies are not the only ones relying on these assumptions about counseling's success. Fannie Mae has no proof that counseling is effective, but requires it for home purchasers using Fannie Mae's "community lending products." RHS may not attempt to measure the success of its two-year pilot pre-purchase counseling program, but even in the absence of data is considering requiring counseling for applicants for Section 502 loans.\*

### *Practitioners' Suggested Quantitative Measurements of Success*

When asked how they would quantify counseling's success if they had to, rural housing counselors and others involved in their efforts suggest a number of possibilities:

- △ number or proportion of counseling participants purchasing a home (with the caveat that

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\* Early in fiscal 1995, RHS staff said they expected to administer some sort of questionnaire to participants in the pilot program, and to evaluate data on how many participants purchased homes, how many declared bankruptcy, and the like. By early fiscal 1996, however, it was clear that the program would not receive funding beyond the two-year pilot period, and staff was considering whether there would be any reason to try to compile a report of program results. Even if findings were reported, they would not include long-term results; since the two-year time period includes development, advertisement, and conduct of the local programs, it seems unlikely that many participants would have their mortgages for more than a year before the pilot would be evaluated.

- for some families deciding not to purchase is a success and will avoid a later foreclosure);
- △ time spent in counseling that results in a loan closing (longer time indicating greater success because it indicates a purchaser had more to accomplish);
  - △ dollar amount of new mortgage loans to counselees;
  - △ default and delinquency rates (though many suggest that rates should not be expected to be at the same level as for higher income purchasers, and some contend that any measurement of rates must take into account whether the reasons were within the homeowners' control);\*
  - △ foreclosure rates (ditto);
  - △ foreclosures avoided;
  - △ homeowners' promptness in seeking help when experiencing trouble making payments;
  - △ number of applications for funding (particularly relevant when the number of closings will be restricted by funding limitations);
  - △ quality of applications;
  - △ number of persons counseled;
  - △ changes in purchasing behavior, billpaying, credit ratings, and the like;
  - △ changes in use of bank services;
  - △ client satisfaction and perceptions of information learned;
  - △ number or proportion of borrowers still in their homes at any point in time and, for those who are not, reasons why not;
  - △ number or proportion of borrowers who pay off their loans entirely;
  - △ success rates for potentially housing-related or budgeting-related measurements such as children finishing high school.

Contradictions in some of the suggestions demonstrate the difficulty of measuring counseling's success. While most believe a high proportion of closings would indicate success, one lender points out that when a large number of unqualified persons are interested in purchasing, a low proportion of closings constitutes success. Even when a measurement is unambiguous (a high foreclosure rate is unlikely to indicate anything successful about a program), those suggesting the measurement usually could not provide specific figures they believed would indicate success.

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\* While none of the interviewees suggested measuring mortgage dollars lost, scholars have pointed out that such a calculation would be more useful to lenders and investors than measuring default rates. "The proportion of dollars loaned that become losses in default varies by loan," and lenders should be concerned primarily with dollar figures. Roberto G. Quercia and Michael A. Stegman, "Residential Mortgage Default: A Review of the Literature," *Journal of Housing Research* 3 no. 2 (1992): 361, citing R.D. Evans, B.A. Maris, and R.I. Weinstein, 1985, "Expected Loss and Mortgage Default Risk," *Quarterly Journal of Business and Economics* 24:75-92. Since low-income homeowners can be assumed to purchase less costly homes, any given default rate on loans to low-income families is likely to be equivalent in dollars to a lower default rate on loans to those who can afford more expensive homes.

They did say, particularly with respect to delinquency, default and foreclosure rates, that the benchmark for comparison should be different for low-income homeowners than for moderate- to upper-income households. While rural housing counselors expect to be able to improve their clients' lives, they are realistic -- they do not expect counseling to overcome local economic decline or stagnation, inadequate education, and the like. Similarly, they emphasize that default, delinquency and foreclosure rates must separate factors that could be solved by counseling from those that could not.\*

It should also be noted that ways of measuring the success of rural housing counseling may be defined differently by those with different perspectives. Nonprofit organizations and local governments using counseling as one component of a program to improve the housing situations of low-income rural residents, and the residents themselves, see counseling as effective if it helps specific families to purchase and keep homes. Banks probably believe counseling works if low-income borrowers receiving counseling can meet the banks' underwriting standards for credit history and/or then experience default and foreclosure at about the same rates as the higher-income persons to whom the banks have previously targeted their loans. Federal and state government entities that fund counseling programs may be concerned not only with whether counseling assists individual constituents, but also with whether its costs to taxpayers outweigh its benefits. And researchers seem to want cold facts, data proving that counseling does or does not have some measurable impact on a particular population, separable from any other type of housing assistance the members of that population might receive.

Housing counseling often is not separated from other housing assistance, however. And its benefits include the intangible benefits of homeownership such as self-esteem, pride, and improved care of entire neighborhoods. This makes quantifiable measurement of its overall success nearly impossible, and makes reliance on the experience of counseling providers essential.

### ***Researchers' Quantitative Measurements of Success***

Counseling organizations' experience -- that counseling is useful -- is consistent with the positive findings of most of the counseling studies performed in cities and summarized above. The majority (eight) of these research studies found that counseling had at least some positive

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\* Recent research verifies counselors' understanding that mortgagors, perhaps particularly those with low incomes, do not always have enough control over their financial situations to make a carefully thought out decision about whether to default. Literature on mortgage defaults has long assumed that borrowers' decisions to default are influenced largely by the amount of equity they hold in their homes. Roberto G. Quercia and Michael S. Stegman, "Residential Mortgage Default: A Review of the Literature," *Journal of Housing Research* 3 no. 2 (1992): 341-79. A recent examination of panel data that indicate reasons for default among Section 502 borrowers in the mid-1980s found that default decisions were affected significantly by the ratio of mortgage payment to income and the occurrence of crisis events. Roberto G. Quercia, George W. McCarthy, and Michael A. Stegman, "Mortgage Default among Rural, Low-Income Borrowers," *Journal of Housing Research* 6 no. 2 (1995): 349-369.

results. Four of the same studies identified at least one additional measurement by which counseling's results were neutral or, in one case, negative. Also, one of them (Morgan Management's Detroit analysis) found that counseling seemed to be less successful three years later than it was during the first year after it occurred. While this quantitative evidence is not fully consistent, it does point strongly to a conclusion that counseling is effective in some ways.

There seems to be no conventional wisdom among researchers on how to measure the success of housing counseling, however. The studies that have attempted to quantify success have focused on differences in delinquency and foreclosure rates. But they have used four different bases of comparison for measuring those differences. Four (HUD's 1974 Fresno study, OSTI, the National Urban League, and Abt Associates) compared persons receiving counseling (pre-purchase or D&D) to persons not receiving counseling. One (OSTI's D&D study) compared defaulting borrowers in six cities where counseling was available to defaulting borrowers under the same subsidy program in eleven different cities without counseling. Two (HUD's 1975 and 1977 studies) compared defaulting borrowers who were referred to counseling with borrowers under the same subsidy program in the same cities who were not referred to counseling. Morgan Management's Detroit study made a similar comparison, but apparently included mortgagors participating in different subsidy programs.

Two studies examined the immediate causes of delinquencies and foreclosures to see whether they could be affected by counseling. OSTI's study of pre-purchase counseling found that default was likely to be caused by uncontrollable factors like the loss of a job or a major illness, and Morgan Management found that very few homeowners, counselors, or bankers believed the condition of the home at the time of purchase was the primary cause of defaults. OSTI distinguished default from foreclosure in this respect. Foreclosure, although tending to occur after a period of default, was more often associated with problems in housing conditions and therefore might be more often affected by counseling. Neither study considered the issue from another important angle, however. Did homeowners who received (or were referred to) counseling manage to avoid or overcome financial problems like job loss or a need for major repairs more often than non-counseled homeowners?

Most of these studies examined counseling results over a one- or two-year period. Morgan Management's assessment in Detroit was the exception, comparing default and foreclosure rates within a year after counseling took place to those three years later. While default rates were lower for homeowners referred to counseling than for those not referred, foreclosure rates were actually higher for those who were referred to counseling. This study may indicate that counseling's effects wear off after time. But it does not seem to have taken into account whether the referred and not-referred groups had different characteristics that might have interacted unequally with some other change, such as a decline in the city's economy, during the three-year period. Also, there is no evidence about time periods longer than three years. If counseling merely delays foreclosure for some, perhaps the period of delay lasts about three years but those who maintain their mortgages for at least three years may fare better after five years or ten years or thirty years than those who were never referred for counseling. Finally, the Detroit results may simply indicate that some homeowners need counseling more than once, or need a

“refresher” course periodically.

Other potentially beneficial, but harder to measure, results of counseling have been noted by some researchers. HUD’s 1975 study, for example, noted that counseling could have many useful results besides reducing delinquencies and foreclosures:<sup>14</sup>

- △ It could help families to reconvey their homes by deeds in lieu of foreclosure, thus reducing the negative impact on their credit ratings.
- △ It could help families find more satisfactory alternative housing even if they lost their current home.
- △ For families who would have been able to bring their payments current even without counseling, counseling could help them get current more quickly and with fewer problems.
- △ Counseling could help find and resolve errors made by lenders.
- △ It could help HUD monitor lenders by uncovering questionable mortgage servicing or mortgage approval practices.

Some of these results -- such as minimizing negative credit ratings -- might improve families’ financial situations in the future, or at least prevent them from becoming worse. Thus, even if counseling did not forestall the loss of a home immediately, it might help a family to purchase and keep another home eventually. This speculation seems to be supported by counseling recipients’ statements that budget and debt management information was helpful, as reported in the NCSU and OSTI studies. But none of the reviewed studies measured that kind of result, in part because it could be seen only in a large longitudinal study carried out over many years. (Of course, the converse might be found to be true as well: some homeowners who receive counseling and avoid foreclosure at one point in time probably do lose their homes to foreclosure eventually.)

One step towards examining counseling’s impact on financial behavior aside from mortgage payments was attempted in the 1972 University of California study, which examined the budgeting, planning, saving, and purchasing behavior of counseled and uncounseled households. OSTI attempted another indirect way of examining general financial status, comparing the age and condition of homes at purchase, knowledge about defects, and improvement and repair costs over time. Later studies with fewer methodological flaws have elected not to examine these criteria, but they do appear to be relevant.

Given the wide variety in counseling programs discussed in this paper, any really useful quantitative measurement of success would need to compare the relative effectiveness of different types of counseling, but few researchers have attempted to do so. HUD’s 1977 *Counseling II* report found that recipients of in-home counseling had lower foreclosure rates with greater cost-effectiveness than clients receiving office counseling. Provision of debt collection services and referrals to other social service agencies did not have equivalent results, and other differences among counseling techniques were not tested. NCSU had little trouble concluding, based on counselors’ reports rather than on any hard data, that individual sessions

and hands-on experiences were more successful than group lectures.

It might be appropriate, as well, to examine participants' perceptions of counseling's usefulness as a measure of its effectiveness. NCSU and OSTI did ask counseling clients whether they found the education helpful (most of them did), and a number of rural counseling agencies interviewed for this study mentioned client satisfaction as an important goal, but that aspect of success has been omitted from many of the studies. If counselees believe they have learned something from counseling, and if their self-esteem increases as a result, surely some beneficial effect has occurred even if it cannot be quantified.

A different type of measurement of success -- cost-benefit analysis -- has been attempted by some researchers. Slightly more than half way through their two-year pilot counseling program, RHS staff expressed concern about its not being cost-effective because its cost averaged \$15,000 per county per year, although staff did not know how many families were being served or what the cost was per family. The agency was inclined to decide that this cost was too high, believing that if RHS had further counseling funds available it could stretch them farther by paying other counseling agencies to counsel its purchasers. Since RHS did not expect to have any funds allocated for this purpose in the foreseeable future, it did not need to perform a detailed cost-benefit analysis.

Researchers who considered this issue did attempt to make more precise determinations. Notably, OSTI and the HUD 1975 and 1977 reports included estimates of counseling's costs and benefits. The most detailed discussion of this issue is in the 1975 HUD report, which lists numerous possible costs and benefits of D&D counseling for Section 235/237 mortgagors. (That study was not concerned with tenant counseling or with pre-purchase counseling, and did not consider differences that might be relevant for purchasers under other programs.) Possible costs, researchers stated, might include:

- ⊠ direct payments made to counseling agencies;
- ⊠ continuation of direct subsidy payments to borrowers who would have left the subsidized Section 235/237 mortgage program if foreclosure had occurred;\*
- ⊠ continuation of monthly mortgagee servicing fees to the Section 235/237 lenders;
- ⊠ continued loss of federal income tax revenues because Section 235/237 recipients received special income tax treatment;

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\* While the 235/237 programs no longer exist (except for purchasers who received the Section 235 interest-rate reduction subsidy and are still paying those mortgages), using counseling to keep anyone in any subsidized housing program will incur the costs of continuing the subsidy.

- ⊡ continuation of HUD administrative costs for loan servicing, income recertification, and payment of subsidies;
- ⊡ costs of future foreclosures for some borrowers who might avoid foreclosure now but experience it later;
- ⊡ HUD administrative costs for supervising counseling agencies and referring borrowers to them;
- ⊡ “resentment among some non-beneficiaries resulting from the inequity of the continued 235 program”; and
- ⊡ other possible social costs.

Possible benefits, HUD researchers noted, might include:

- ⊡ avoidance of the cash loss that would occur in the process of acquiring, holding, repairing, and selling foreclosed homes;
- ⊡ the “personal benefit of continued subsidy to recipient households”;
- ⊡ continued receipts for the mortgage insurance program;
- ⊡ avoidance of HUD administrative costs for property disposition;
- ⊡ avoidance of losses that might occur through later foreclosure and re-acquisition;
- ⊡ avoidance of “anguish” and poor credit ratings for foreclosed borrowers;
- ⊡ avoidance of “bad will” and lost interest income for foreclosing lenders;
- ⊡ avoidance of vandalism and neighborhood deterioration around vacant properties;
- ⊡ “the alleged social benefit arising from homeownership”; and
- ⊡ other possible social benefits.

Many of these costs and benefits cannot be quantified. Different lists could be developed for other types of counseling and for other sources of mortgage financing, but they would still include numerous items to which no dollar figure could be attached. The appropriateness of calculating only costs and benefits to the subsidy provider, or those to society at large, is obviously a matter for policy debate and cannot be resolved in the current research report. It is sufficient to note here only that there is no agreement among researchers on whether or how to calculate the costs and benefits of housing counseling, just as there is no agreement on any measurement of counseling’s success.

### ***Further Considerations***

While researchers and policymakers may be concerned with obtaining data, persons involved with rural housing counseling believe strongly in its efficacy. They are not concerned that there is little data directly supporting this conclusion; they rely simply on their own experience. Rural agencies doing counseling generally maintain very little, if any, data on their clients over time. Counseling agencies that do not also make direct loans generally do not know how their clients fare, except for those individuals who request help. Lender/counselors such as the Minnesota HFA and FAHE do have information substantiating the success of their programs. MHFA, for example, has had no foreclosures under its Native American lending programs since their inception in 1989. FAHE experiences a lower delinquency rate than USDA’s Rural Housing

Service, HUD, or local savings and loans.

Even when they do have data available, counselors put equal emphasis on successes that cannot be measured quantitatively. Programs that enable low-income households to purchase homes increase their pride and self-esteem immeasurably. Counselors note that moving from an apartment to a “real” house with a yard, particularly when one is moving out of an apartment complex stigmatized as public housing or “Farmers Home” housing (the old name has stuck), can be a significant psychological boost. This may be especially true in rural areas, where single-family homes are the norm and homeownership is much more common than in urban places.

A beneficial effect on self-esteem may occur even when a counselee cannot obtain a home immediately. As mentioned above, some counselors are very careful to encourage those whose credit ratings or debt loads will not allow them to purchase right away. Never let a family leave feeling that their situation is hopeless, says one. Another has seen families return two or three years after taking homeownership classes, proud to have paid off loans or saved for a down payment, and ready to apply for a loan. This kind of experience explains counseling agencies’ willingness to look at results over the long term.

This experience also demonstrates the difficulty of separating the effects of these organizations’ counseling efforts from other aspects of their work such as careful screening processes, flexible underwriting standards, deep subsidies that make mortgage payments lower than many participants’ previous rent payments, and the like. In fact, it may be precisely because counseling is part of a comprehensive approach to providing decent and affordable housing that these programs are successful.



## ENDNOTES

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11. Morgan Management Systems, *A Report on the Detroit Default Counseling Demonstration: An Assessment of Counseling as a Default Remedy* (1980), summarized in Department of Housing and Urban Development, *Report to Congress on Housing Counseling* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1983), pp. III-18 to III-20 and IV-6.
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13. Freddie Mac, *Discover Gold Through Homeownership Education*, “Introduction” (June 1995), p. 1.
14. *Counseling for Delinquent Mortgagors* (1975), pp. 37-38.



## APPENDIX DETAILED SUMMARIES OF LITERATURE REVIEWED

### *Studies of Pre-Purchase Programs*

San Francisco Development Fund, *A Move to Homeownership* (1970), summarized in Department of Housing and Urban Development, *Report to Congress on Housing Counseling* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1983), pp. III-3 to III-5.

An early study in San Francisco found that assistance in purchasing a home (bargaining with sellers, shopping for lenders, and the like) was positively correlated with homeownership, while job counseling and financial management counseling were not. This study reported on an experimental program, undertaken from December 1966 through November 1969, that provided counseling and two years of financial assistance to upwardly mobile low-income families using HUD's Section 235 program. The program did increase the rate of homeownership among participants as compared to a control group who did not receive counseling or subsidies. The effects of the counseling could not be separated from those of the financial assistance, however. In addition, not all participants accepted the counseling offered, and participants were able to use widely varying types of counseling, from employment and budget assistance to counseling on family relations. The study's usefulness was further limited by its small sample size (104 families), the fact that the assisted families and control group families were matched by ethnicity only, and its failure to separate the influences of the tight housing market and booming employment market existing in San Francisco at the time. Furthermore, the study does not necessarily reflect the effectiveness of such a program for the population at large, because participants were households who survived a screening process that eliminated buyers who matched a high risk profile for future delinquency and default.

While that San Francisco study did not include any information about eventual foreclosure rates, apparently later data showed no real reduction in foreclosures, or was inconclusive. A 1975 report may be referring to this San Francisco program when it notes: "Another study (in its final stages of preparation by a consultant) of the San Francisco Development Fund's 235 Buyer Agent Program indicates that the prepurchase counseling provided by that agency did not significantly reduce foreclosure rates." HUD-Region IX, *Evaluation Report: Effectiveness of Homeownership Counseling (Program Planning and Evaluation)*, HUD-Region IX, December 1975), p. 4. It is not entirely clear that this is a reference to the same San Francisco program. The unnamed consultant's report has not been located, but is likely to be a report cited by Abt Associates as "inconclusive regarding the effectiveness of prepurchase counseling." Judith D. Feins, L. Dixon Bain, Jr., and John A. Kirlin, *Results of the Prepurchase Homeownership Counseling Demonstration: Final Report* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and

Research, 1980), p. 2, citing Urban Management Consultants, *Evaluation of the San Francisco Development Fund's Buyers Agent Program* (San Francisco, 1976).

Dr. Theodore J. Pinnock and David A. Norris, *Turnkey III Counseling Program Review for Winston-Salem, North Carolina* (Raleigh, NC: Center for Urban Affairs and Community Services, North Carolina State University, July 1971).

In contrast to the San Francisco findings that financial management counseling did not help families to become homeowners, another homeownership program at about the same time period found many recipients of counseling on financial planning and credit issues believed the information was helpful. This program, and the written report on it, were very different than the San Francisco experiment. In 1971 researchers at North Carolina State University undertook a descriptive review of the functioning of HUD's Turnkey III program from December 1969 through June 1971 in eight North Carolina cities, focusing on Winston-Salem. The program moved residents of public housing to newly constructed subdivisions of single-family homes. Families initially rented their homes and were expected to provide sweat equity in the form of routine maintenance, with an amount attributable to maintenance costs saved being credited towards their eventual purchase.

Counseling was provided using a variety of methods including demonstrations, group sessions, individual meetings, tours, printed materials, slides, and films, and included three distinct components. Participants were required to attend four two-hour pre-purchase counseling sessions on the program's functioning, money management, and maintenance. They were also offered optional monthly group counseling sessions, during the first year after occupying their new homes, on topics such as community problem-solving, decorating, time management, banking, and family relations. The third counseling-type component of the program was the development of a homebuyer's association in each subdivision, intended to develop community leadership, "enhance open communication and wholesome relationships" with local housing authorities and the general community, educate participants about community living, and deal with common problems. The program's effort to deal with entire communities is further emphasized by the development of special youth programs for the children of participating families.

The study's findings did not attempt to measure program success by number of purchases, delinquencies, or defaults. Very little of that type of information would have been available at the time of the study: almost two-thirds of the sample of residents interviewed had lived in their new homes for less than six months. The findings are interesting nevertheless, since few other counseling studies focus on the reactions of staff and participants.

Participants' responses were obtained on questionnaires during the pre-occupancy sessions and in interviews administered to a sample in Winston-Salem after they had moved to their new homes. More than half indicated on their pre-occupancy

questionnaires that their "major need and interest was for personal counseling in how to get out of debt." Other important topics included "shopping tips" and "family planning."

Forty percent of interviewees said the session on budgets, finance and credit was the "most helpful" pre-purchase topic. The second most popular "most helpful" session was on decorating and refinishing furniture, identified by 20 percent. A large majority (86 percent) reported that the counseling program in general was helpful or very helpful to them, and almost as many (85 percent) said they would turn to the counseling staff when they needed additional counseling, rather than to the local housing authority or the homebuyer's association. Three-quarters could suggest no improvements in the program, while others requested more detailed information on budgeting, added training in leadership and guidance, and information on upholstering.

Program staff's reactions provided some useful findings as well. For example, they reported that "individual face-to-face counseling" appeared to be essential in order to convey information successfully, and that hands-on programs were more popular and led to better retention of information than classroom sessions. In addition, they postulated several reasons for the participating families' poor attendance at the voluntary post-occupancy sessions: too much time may have been allowed to elapse between the pre-occupancy and post-occupancy sessions, there may have been too little emphasis on the importance of continuing counseling, sessions were announced by formal letters rather than personal contact, child care was not provided, and, finally, program staff found that participants with low self-esteem regarding their ability to succeed in the program -- those most in need of assistance -- were the least likely to participate in voluntary sessions. Other possible problems with those sessions were discovered when the homebuyer's associations were formed; association officers pointed out that they had not been involved in structuring the post-occupancy counseling sessions and were not initially asked to help increase attendance. (The NCSU study reports that "drastic changes" in the training plans were made as a result of these comments, but does not explain what the changes were or describe their results.)

NCSU concluded its report with recommendations for further study on counseling for "conscientious citizenship" as well as for homeownership. It suggested the post-occupancy component be developed as a model of a "neighborhood continuing education" effort. It recognized the needs of individual participating households as well, recommending that counseling plans be developed for each family separately because not all participants needed all parts of the broader curriculum. An emphasis on pre-occupancy counseling was advised because participants were more "highly motivated" before moving than after obtaining their new homes. And researchers advised that the sessions should make better use of the program participants themselves.

The NCSU report was not intended to provide a quantitative measurement of the success of housing counseling, and cannot be interpreted in the same way as studies that did attempt such measurement. There was no control group in this study. No data were collected on delinquencies, purchases, or changes in participants' financial status. A variety of changes were to be instituted in the program based on the study, but apparently there is no report on the results of providing more individual counseling, or changing the content and community support for the post-occupancy sessions.

University of California, *Preliminary Evaluation of the Section 237 Housing Counseling Program* (1972), summarized in Department of Housing and Urban Development, *Report to Congress on Housing Counseling* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1983), pp. III-5 to III-8.

A different HUD-funded pre-purchase counseling program was evaluated by the University of California in 1972. HUD certified (but did not provide funding to) 53 counseling agencies nationwide to provide pre-purchase counseling under HUD's Section 235/237 housing program to applicants for federally insured mortgages. Researchers collected questionnaires from 33 of the 53 agencies, and collected more detailed information from four of the agencies located in four different cities. Data for 66 counseled clients were compared to 33 who had been rejected by counseling agencies as unable to benefit from the program.

Researchers found no statistically significant differences between counselees and rejectees in budgeting, planning, and saving, but did find statistically significant differences in purchasing behavior. Counselees were more likely to own homes and major appliances, while rejectees were more likely to own cars and to owe more for their cars. Counselees tended to have lower incomes than rejectees, but were found to be more "efficient purchasers" and to incur less debt. "Success" rates varied widely among agencies. Between 15 and 85 percent of applicants accepted for counseling were subsequently certified for Federal Housing Administration insurance, according to the 11 agencies that provided that data on their questionnaires. The four case study agencies reported delinquency rates for their counselees of between 11 and 45 percent.

This study's results cannot be generalized for several reasons. First, Section 235 and 237 borrowers were not representative of the entire low- and moderate-income homebuying public; Section 235 provided interest-reduction subsidies to buyers who otherwise could not buy, and Section 237 provided mortgage insurance to high-risk clients with credit problems that eliminated them under other HUD mortgage insurance programs. The study results could not be applied even to all Section 235/237 purchasers, for several reasons. Case study agencies were selected based on their sophistication and success, rather than their representativeness among all Section 237 agencies. There was no control group matched in socioeconomic characteristics to an experimental group. Sample sizes were very small, and counselees interviewed were not necessarily randomly selected. Much of the data was self-reported by agencies, and therefore may have been

biased. Comparisons between the counseled and rejected applicants could have been inappropriate because the agencies may have rejected applicants due to high-risk characteristics that could have explained different results for the two groups even in the absence of counseling. Finally, measured changes in purchasing behavior could have resulted from homeownership rather than from counseling, as counselees who obtained mortgages would have been more likely to buy appliances and less likely to have had funds remaining to buy cars.

Judith D. Feins, L. Dixon Bain, Jr., and John A. Kirlin, *Results of the Prepurchase Homeownership Counseling Demonstration: Final Report* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 1980).

In the late 1970s HUD contracted with Abt Associates to perform a study of counseling for borrowers using the Section 235 mortgage insurance program. Congress had requested the Prepurchase Homeownership Counseling Demonstration and Evaluation because it hoped to determine whether pre-purchase counseling could reduce the large proportion of defaults and foreclosures occurring among Section 235 purchasers, but the study period extended over only 15 months (June 1978 to September 1979), so was limited to examining homeseeking and purchasing behavior, not default rates. The demonstration was carried out in three cities (Philadelphia, Atlanta, and Phoenix), using two counseling agencies in each city. The agencies were atypical of HUD-approved counseling agencies nationwide, however, having larger staffs, larger budgets, and a wider spectrum of consumer counseling than most others.

Participation in the counseling program was voluntary, as it was among all Section 235 participants at that time. The first six months of the study, therefore, were devoted to an extensive outreach program. A very low proportion of the eligible homeseeking population expressed interest in obtaining counseling, however. Few of those who inquired about the program actually enrolled, and then only two-thirds of those assigned for counseling actually took advantage of the counseling available. “Of every 10,000 eligible [low-income] households considering buying a first home,” the study report concluded, “the demonstration found that about 1960 would learn that a counseling program existed, about 1390 would inquire about it, 40 would enroll, and only about 477 would actually utilize counseling” (p. 8). The reasons most often given by eligible households for not enrolling were that the time or place was inconvenient (although sessions were scheduled for evenings and weekends), that they had lost interest in buying, or that they had already signed a contract or bought a home. Since these reasons were not connected to the program or its design, researchers deduced that enrollment response would not be different for a differently structured program.

To test the impact of counseling, the study divided participants randomly into three categories. The control group participants received an information packet, but no counseling sessions. A second set was scheduled for three group counseling sessions, which it was expected six to ten households would attend. (The initial study design



contemplated that some participants would receive group sessions only, and some would be offered group sessions plus some individual attention. The low enrollment in the program led to a decision to collapse these two classifications into one.) Participants in the third category received one-on-one counseling, including “advocacy” activities such as housing inspections and attendance at closings.

The package of written materials was highly rated among participants in all three categories. Opinions about its usefulness varied little between the control group and the counseled group, or between those who actually obtained counseling and those who were assigned to counseling but did not use it. The largest difference in opinion was between nonbuyers and buyers, with nonbuyers saying six of the book’s eight sections were significantly more useful than those who purchased said they were. The biggest differences were in the sections covering affordability, housing choice, and search strategies, so apparently those sections influenced decisions about buying.

The study assumed that successful pre-purchase counseling would make participants’ behavior more realistic: they would have a better understanding of their financial capacity to purchase and would perform a more careful search, resulting in a lower rate of purchases and a better fit for costs and incomes among those who did purchase. The results were inconclusive, however. A greater proportion of those who had purchased homes by the end of the study period had received counseling than those who had not purchased, but it could not be determined whether counseling encouraged purchasing, or whether both counseling and purchasing were related to some third factor such as income or education. Also, it was not known how many participants purchased homes after the end of the study period.

Researchers examined three aspects of the purchase process at which homeseekers could make decisions. First, there was no significant difference in searches (measured by the number of houses examined from the outside or inside, and the asking price of houses examined) among counseled and non-counseled groups, or among those receiving different types of counseling. Second, participants in the demonstration generally purchased older and smaller houses than other FHA purchasers, and generally had lower monthly housing costs than other FHA purchasers, but there were no statistically significant differences between the demonstration groups. Those differences might have been explained by the fact that demonstration participants (unlike all FHA buyers) were all first-time buyers and were limited by income, not just by loan amount.

Third, participants who were offered group counseling (whether or not they used it) were less likely to purchase homes than those who were offered individual counseling or those in the control group. This was the only significant difference identified between the three demonstration categories, but its importance is unclear. There was little real distinction between the counseling received by those assigned for group sessions and those assigned for individual attention. The low participation rate meant that groups averaged 3.3 households rather than the anticipated six to ten. There was little difference in the actual

number of hours used by participants in those two categories, and only 13 percent of those receiving individual counseling actually took advantage of the opportunity for direct assistance with home inspection, third-party contacts, or attendance at closing. The biggest difference between the two types of counseling was a more structured, uniform curriculum presented to group counseling participants. Since that curriculum emphasized affordability and the process of deciding whether to buy, 93 percent of group counseling participants had discussed the buying decision, compared to only 62 percent of individual counseling recipients. It was unclear, however, whether the resulting difference in purchases was a positive outcome. Those receiving group counseling may have made better decisions about whether purchasing was appropriate for them at the time, or they may have been unnecessarily intimidated about the seriousness of the decision.

Overall, then, the Abt study does not provide any conclusions about the usefulness of pre-purchase counseling. Like others, this study suffers from methodological problems. A “control group” was established, but members of that group did receive written counseling materials and, since study results showed that participants believed the materials were useful, the control group cannot be said to represent uncounseled households. The only differences in results that could be identified among study participants -- more counsees among the purchasers, smaller homes purchased, and fewer purchases among those receiving group counseling -- did not indicate whether counseling enabled participants to make more informed decisions, or whether counseling affected participants’ records of default and foreclosure.

### ***Studies of Pre-Purchase and Delinquency and Default Programs***

HUD-Region IX, *Evaluation Report: Effectiveness of Homeownership Counseling* (Program Planning and Evaluation, HUD-Region IX, December 1975).

A HUD regional office attempted to measure the effects of pre-purchase counseling and delinquency and default (D&D) counseling on reducing default and foreclosure among Section 235 purchasers by reviewing HUD records for the period from January 1970 through August 1974. Staff examined the records of households counseled by two agencies in Fresno, California, one providing pre-purchase counseling largely in group sessions, and the other providing D&D counseling on an individual basis. These 58 purchasers were compared with 67 other Section 235 mortgagors living in the same six subdivisions in Fresno but not receiving counseling. Those receiving pre-purchase counseling had statistically significantly lower rates of foreclosure, default, and late payments than those not counseled. Those receiving D&D counseling, however, showed no statistically significant difference in foreclosure or default rates compared to non-counseled purchasers with at least one default.

The study did not attempt to compare the relative effectiveness of the two agencies or of different types of counseling, although wide variations existed that could have affected

the study's results. D&D counseling, for example, ranged from a single telephone call to "frequent personal contacts." Some pre-purchase counseling was provided after purchase, and some of those receiving pre-purchase counseling did not attend all the sessions.

The HUD regional office cautioned that its findings could be generalized only to other newly constructed Section 235 units in cities with economic and housing market conditions like those of Fresno. In addition, the report noted several drawbacks to its study. First, the sample was too small to enable correlation of counseling with other important variables such as changes in employment status or changes in debt service and housing assistance payments. Second, data problems could have led to understating the effectiveness of D&D counseling: the "great majority" of the files reviewed did not include "such information as the nature of the loan problem, how the counseling activity relates to the loan problem, and the ultimate outcome of the counseling effort." The nature of the D&D program could have reduced its effectiveness as well: the counseling agency was asked to contact borrowers only after they had missed three consecutive mortgage payments and thus might be deep in financial crisis. Finally, as in the University of California study, some difference between the counseled and non-counseled families in this study could have explained different results for the two groups even in the absence of counseling (although the regional office did not mention this issue).

Organization for Social and Technical Innovation, Inc., *A Study of the Effectiveness of Voluntary Counseling Programs for Lower-Income Home Ownership* (Washington, DC: U.S. Department of Housing and Urban Development, May 1974) reports on the overall study design, the findings regarding the fee-funded program, the findings on voluntary counseling programs, and a summary of the findings on the default program. Findings on the default program are reported in Organization for Social and Technical Innovation, Inc., *An Evaluation of the HUD Concentrated Default Counseling Program* (1974), summarized in Department of Housing and Urban Development, *Report to Congress on Housing Counseling* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1983), pp. III-9 to III-10.

In 1974 the Organization for Social and Technical Innovation, Inc. (OSTI) undertook an extensive study of three types of HUD-sponsored counseling programs: the HUD Fee-Funded Counseling Program, voluntary pre-purchase counseling programs, and the HUD Concentrated Default Counseling Program. HUD rejected this study, and undertook two other studies (summarized below) to replace it; nevertheless, like other flawed studies, it is included in this literature review so that current and future researchers may learn from it.

The Fee-Funded Counseling Program, in which a builder, seller, or other non-purchasing party paid a fee for pre-purchase counseling to lower-income home purchasers, was found to be underutilized and poorly structured. Prospective purchasers were not eligible

until they had signed purchase agreements, by which time much of the counseling program's advice was unneeded. The fee was paid from sale proceeds, so the counseling agency's interest in obtaining its fee might be at odds with its client's interests. For reasons such as these, OSTI did not report its findings on the fee-funded program in any detail, and recommended termination of the program.

OSTI found that voluntary pre-purchase counseling programs were not widely used. The study examined the functioning in 20 cities of some of the 250 HUD-certified agencies counseling Section 235/237 borrowers, and found that only 3 percent of purchasing families obtained pre-purchase counseling from those agencies. Researchers cited several possible reasons for this low usage rate. First, counseling agencies had insufficient funds to undertake more extensive efforts. Also, while FHA staff, lenders, builders, and realtors were supposed to refer potential purchasers to counseling agencies, they rarely did. In addition, many agencies were certified relatively late in the 235/237 program. Finally, OSTI found the counseling agencies had "highly local orientations" rather than "broader metropolitan orientations."

The agencies studied provided not only informational pre-purchase counseling, but also in some cases assistance in house-hunting, inspection and appraisal services, and paralegal review of purchase contracts and the like. This study examined the results of all this assistance in four areas: preparation for ownership, consumer protection, prevention of defaults and mortgage failures, and other results.

Counseled families had lower incomes, were less likely to have increased income over time, had lower education and occupational skills, were less familiar with homeownership, and were more likely to be high credit risks than non-counseled purchasers. But counseling seemed to prepare them for ownership. They purchased homes in better condition, improved their homes at less cost, and maintained their houses and their mortgages better than uncounseled purchasers although the latter generally bought newer homes and experienced larger increases in their incomes. They fared better in the area of consumer protection as well, having less severe problems with the condition of their homes and being more knowledgeable about physical faults in their homes at purchase than uncounseled purchasers despite buying older units. Counseled purchasers probably had better success at preventing defaults and mortgage failures as well, OSTI found. The incidence of such problems was almost the same among counseled and uncounseled homeowners who had the same characteristics at time of purchase. But families in the counseled group were probably overcoming more problems, since they were more likely to buy used housing and thus to have major repair problems, while their household sizes increased faster and their incomes more slowly than the uncounseled purchasers.

OSTI also found differences between default and "mortgage failure." Default was likely to be caused by uncontrollable factors like the loss of a job or a major illness that could not be solved by pre-purchase counseling. Thus counseling could have "only a marginal impact" in preventing subsequent default. Foreclosure, on the other hand, although tending to occur after a period of default, was more often associated with problems in housing conditions. OSTI concluded "that the motivation to resolve a default depends to some extent on the condition and marketability of the house" and therefore "that consumer-protective pre-purchase counseling -- such as the provision of independent inspection/appraisal services and legal services -- which lessened the risks of poor housing condition and future marketability of the house, might have a considerable impact in reducing the incidence of mortgage failure." Researchers apparently did not take into account other possibilities; for example, foreclosure might be inevitable when an uncontrollable factor like job loss occurred simultaneously with a major repair problem regardless of the owner's motivation to resolve the default.

In the area of "other" results of counseling, OSTI found that pre-purchase voluntary counseling appeared to be helpful. The counseled purchasers were more likely to be minorities and to have lower incomes than uncounseled purchasers, so counseling did seem to be assisting those who would otherwise be less likely to become homeowners. Also, counseled purchasers were more likely to purchase used homes in existing neighborhoods, thus helping to meet one objective of the Section 235 program, the revitalization of older neighborhoods.

In addition to gauging counseling's results in the four specified areas, OSTI also interviewed counseled homeowners regarding what information they had found most helpful, and asked uncounseled buyers what they would have found helpful. The most useful types of assistance cited were credit counseling; information about the implications of ownership, purchase procedures, and the selection and evaluation of a house; the existence of "advisory resources" purchasers could call whenever they had a question on any subject, assistance in searching for a house to buy, and receiving independent inspection and appraisal services and legal services. OSTI found these paraprofessional services "most critical to counseling's role in promoting more effective ownership programs." While few of the agencies studied had the staff or funds to provide post-purchase assistance, interviewees said they needed assistance with repair, legal services to deal with issues like construction defects, and information on ownership matters such as tax benefits.

OSTI's accompanying study on HUD's Concentrated Default Counseling Program was the first of three studies focusing on that program, which provided D&D counseling to Section 235/237 mortgagors in 19 cities. Each of the three found statistically significant differences not identified in the Fresno study of D&D counseling.

OSTI compared data from counseling participants in six of the 19 D&D locations to random samples of defaulting mortgagors in those six cities as well as eleven other non-program cities. It tracked changes in their mortgage status over a year, and found default and mortgage failure rates were only marginally lower among defaulting owners (apparently including both counseled and uncounseled owners) in the program cities than in the non-program areas. Since the program was initiated only in areas with high rates of delinquency and default, however, OSTI concluded that it would be appropriate to use the non-program areas' failure trends as the baseline against which to compare the program cities. That calculation led to the conclusion that mortgage failures in the program areas were reduced by 11 percent. This success rate was obtained despite the fact that only an estimated 55 percent of defaulting mortgagors were referred for counseling and another 22 percent were referred so late that they had already left their homes and could not be located by the counseling agencies. Counseling could have been even more effective, OSTI believed, if lenders had referred all Section 235/237 defaulting owners for assistance.

Certain common problems led to default, OSTI found. About a third of defaulting owners had credit management problems. Others had experienced a loss of employment, home repair and maintenance problems, or illness or hospitalization. Not surprisingly, more defaulters lost their homes in areas with high unemployment than in places with low unemployment.

This seems to have been the first study to attempt to measure the cost-effectiveness of a counseling program. For the six program areas studied, OSTI multiplied the annual volume of mortgage failures expected by the 11 percent reduction in failures and the administrative cost per failure. That estimate of savings far exceeded the annual cost of the counseling program in those six areas, so OSTI concluded that D&D counseling was cost-effective, and would have been so even if the reduction in mortgage failures were less than 11 percent. This was due to the high administrative cost of foreclosure, OSTI noted.

OSTI's D&D study can be criticized for a variety of reasons. It did not gather socioeconomic data on homebuyers, for example, so the sample and control groups were not well matched. Very little data was gathered on the types of screening performed by the counseling agencies or the types of counseling services provided, so a number of potentially important factors could not be examined. Varying rates of referrals by mortgagees meant the homeowners referred to counseling were not a random sample. In addition, the overall 11 percent reduction might have been too high because in calculating reduction in mortgage failures for the six cities studied, OSTI stated zero impact -- rather than a negative impact -- for two cities in which failure rates were higher than expected.

## *Studies of Delinquency and Default Programs*

Department of Housing and Urban Development, *Counseling for Delinquent Mortgagors: An Evaluation* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Program Analysis and Evaluation, August 1975).

Because HUD was concerned about the problems with the OSTI study, particularly the lack of socioeconomic data, it undertook another review of the D&D program in 1974 and 1975. In this 1975 report, HUD researchers concluded that Section 235/237 borrowers receiving D&D counseling were significantly more likely to be current on their payments and less likely to lose their homes to foreclosure. The study focused on four of the 19 Concentrated Default and Delinquency Counseling Program cities. Program participants within each city were divided into two groups, those referred to counseling and those not referred, and were matched by socioeconomic characteristics. Although the results varied among cities, the proportion of mortgagors current on their payments was at least ten percentage points higher among those referred for counseling, and the proportion experiencing foreclosures at least 16 percentage points lower.

This study was the first to compare all mortgagors *referred* to counseling -- whether or not they actually *received* counseling -- with those not referred. The situation of the not-referred control group was assumed to represent what would have happened if the counseling program had not existed. The results indicated that those who were referred for counseling but could not be reached by counseling agencies actually experienced fewer delinquencies and foreclosures than those who were referred and counseled. Researchers speculated that those who were referred but did not participate in counseling were those who knew they could bring their payments current, or who were "moonlighting" or involved in other activities likely to assist them in becoming current. Others who refused counseling seemed to be those for whom foreclosure was inevitable.

Like OSTI's study, the 1975 HUD study attempted to estimate the cost-effectiveness of D&D counseling. Researchers developed three models. First, and simplest, one could compare the cost of counseling to the foreclosure costs avoided. This yielded a substantial benefit per referral. The second model added the cost of the continued subsidy payment to homeowners avoiding foreclosure, and concluded there was a small cost per referral. Both these models focused only on counseling's impact on the HUD budget. The third method included costs and benefits to mortgagors, mortgagees, and society at large as well, but could not yield a dollar estimate because items like the costs and benefits to society at large could not be quantified. Researchers believed, nevertheless, that the "net result" of counseling would be beneficial if measured this way. (The costs and benefits identified by HUD researchers are discussed in greater detail below.)

HUD's 1975 study suffered some of the limitations of the OSTI study, as well as some others. It examined only four cities over a short time period. The four cities were chosen because data was available there, not because they were representative in any way. Households included were only those participating in one federally subsidized program and referred for (but not necessarily receiving) D&D counseling. Sample pairs were matched on socioeconomic characteristics but not on potentially relevant factors such as repair bills or the attitudes of their lenders. There was no way for researchers to know why some borrowers were referred for counseling and why others were not, so if referral practices were anything other than random they could have biased the results. Agencies' counseling procedures, and the type of counseling received, varied. The dollar estimates used in the cost-effectiveness determinations were not firm, and several possibly relevant items could not even be estimated.

Department of Housing and Urban Development, *Counseling for Delinquent Mortgagors II: A Staff Study* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Program Evaluation, Division of Special Studies, January 1977).

Another HUD study, published in 1977 with the title *Counseling for Delinquent Mortgagors II* but unrelated to the 1975 report of the same name, attempted again to correct some of the flaws in the OSTI study and in the 1975 analysis. Like the 1975 HUD study, it matched pairs of Section 235 borrowers referred and not referred to counseling. It used data in five different cities for 1,500 homeowners and ten HUD-approved counseling agencies. Counseling was offered to every other borrower on an alphabetical list, thus establishing a random sample and control group.

While only one-fourth of those referred to counseling were actually counseled, researchers believed the referred/non-referred comparison was appropriate for several reasons. First, since some persons will always decline counseling, including them would generate a more realistic measurement of experience if everyone were referred to counseling. In addition, the referral itself might have had some effect, and might have spurred some homeowners into solving their payment problems. Finally, if there were some common pattern of characteristics among those who were referred but did not accept counseling, the same pattern would have been present in the non-referred group, so eliminating those persons from the referred group would bias the analysis. For example, borrowers with less severe problems might be less likely to participate in counseling.

While the 1975 review had compared the *difference in percentages* of borrowers delinquent or foreclosed, this 1977 report (like the OSTI study) measured the impact of counseling as the *percentage* of mortgages brought up to date and foreclosures avoided.\*

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\* The 1977 report gave the following example of the difference in these types of calculations. "In the first study the foreclosure rate among mortgagors not referred to counseling was 50%; the rate among



Measured this way, the 1975 study would have concluded that counseling reduced foreclosure rates by as much as 46 percent.

Like earlier studies, this one found D&D counseling had mixed results. Six to twelve months after the completion of counseling, 36 percent more of the non-referred group had been foreclosed, and 16 percent more were either foreclosed or farther behind on their payments than the referred group. Six percent fewer of the non-referred group had become current on their payments, and 14 percent fewer were either current or were fewer months behind than the referred group. However, while 35 percent more of the non-referred homeowners than the referred owners were more months behind on their payments than they had been before counseling, fully 30 percent of the referred owners were more months behind. Researchers suggested this might result from a greater willingness of mortgage servicers to carry referred mortgagors, hoping that counseling would improve their payments.

The effectiveness of counseling (measured by foreclosures, currency of payments, and number of months behind in payments) varied among the five cities studied from 24 percent to 51 percent effectiveness. The ten agencies showed effectiveness rates from a low of negative 65 percent to a high of 65 percent. While researchers could not separate city-related factors from agency-related factors, it is interesting to note that the lowest and highest rated agencies were both in Los Angeles. The factor most likely to impact on outcome was mortgage age: in the 1975 HUD study most defaulting owners had had their mortgages for about three years, but in this study they had maintained them for about five years, so their defaults were likely to have resulted from more serious problems.

Cost-effectiveness was estimated in this study using the same three models as the 1975 HUD study, with slightly different results. The first and second methods (considering impact on the HUD budget only) indicated that counseling was cost-effective overall, but at a lesser savings per referral than the earlier study found for Method 1. The third method showed benefits exceeded costs as well, if it was assumed that nonquantifiable benefits were greater than nonquantifiable costs. Cost-effectiveness varied widely by city and by agency, indicating that different settings and/or different approaches affected outcomes.

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those referred was 27%. Subtracting 27% from 50% yields the percentage point difference between the two groups. This figure, however, does not indicate the rate at which counseling is effective in avoiding foreclosure. Dividing the percentage point difference between the two groups by the foreclosure rate for the not referred group yields the rate, or percent, at which counseling is successful in avoiding foreclosures." *Counseling for Delinquent Mortgagors II*, p. 2.

This study seems to have been the first to examine the effectiveness of different counseling techniques for D&D counseling. It evaluated the ten agencies studied by their use of in-home counseling (as opposed to office counseling), their provision of debt collection services, and their use of referrals to other social service agencies. Home counseling, which was assumed to provide a more relaxed atmosphere -- at the expense of adding distractions, "reduced professionalism," and greater travel expenses -- did lead to lower foreclosure rates and greater cost-effectiveness. The three agencies with the best records emphasized home counseling. Provision of debt collection services, which gave counselors better knowledge of homeowners' overall debt situation, and obtained greater support from other creditors, did not affect foreclosure rates. Only two of the ten agencies referred homeowners to other social services; one rated below average in foreclosure reduction, and the other was successful but not as successful as some without referral services.

The study's authors cautioned, of course, that the cities and agencies studied might not be representative of all cities, all agencies, all economic conditions, and all agencies' approaches to counseling. Some problems with the randomness of the samples, and with data collection, were noted as well.

National Urban League, *Report of Home Mortgage Assignment Counseling, Training and Evaluation Program* (1980), summarized in Department of Housing and Urban Development, *Report to Congress on Housing Counseling* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1983), pp. III-15 to III-18.

This two-year study of the effectiveness of housing counseling in HUD's Home Mortgage Assignment Program examined 898 homeowners in five cities with high levels of D&D counseling and two cities with little or no such counseling. All participating homeowners applied to HUD to have their mortgages assigned to HUD. Some received counseling in conjunction with the program.

Counseling was found to have no effect on HUD's acceptance of assignments; the same proportion of counseled and non-counseled applicants were accepted. A higher proportion of those counseled but rejected for assignment were subsequently foreclosed than of those not counseled and rejected. The length of time spent in counseling did correlate positively with avoidance of foreclosure. Researchers postulated that only the most desperate cases were referred to counseling, and that those most likely not to need assistance refuse counseling.

It is also important to note that counseling could not affect most of the factors that determined whether applicants were accepted for assignment. Counseling could help the homeowner with the application process and assure that their rights were protected, but acceptance depended upon the mortgagor meeting the legislatively mandated acceptance criteria. For example, the cause of the default must have been beyond the mortgagor's

control. If that criterion were not met, HUD would reject the application for assignment regardless of any counseling.

This study estimated counseling's cost-effectiveness for the assignment program, using a calculation essentially the same as HUD's Method 1 in its *Counseling for Delinquent Mortgagors* and *Counseling for Delinquent Mortgagors II* studies. It projected the costs for a nationwide counseling program and concluded that a short-term counseling program would be cost-effective and a long-term program even more so.

These stated results are aggregates for all cities studied, but they varied widely between the cities. In addition, the study did not collect data on defaulting mortgagors who did not request assignment. The cost-effectiveness determination used a narrow definition of costs and benefits, and relied on projected national figures rather than actual amounts.

Morgan Management Systems, A Report on the Detroit Default Counseling Demonstration: An Assessment of Counseling as a Default Remedy (1980), summarized in Department of Housing and Urban Development, *Report to Congress on Housing Counseling* (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1983), pp. III-18 to III-20 and IV-6.

A demonstration program of default counseling took place in Detroit from 1976 to 1977 and was summarized in a report about the impact of default counseling and the effectiveness of particular types of counseling. Researchers divided defaulting mortgagors into groups that were referred and not referred by the HUD Area Office for counseling at four HUD-approved agencies in the city. About 4,000 defaulting mortgagors were referred to counseling, but only 787 (20 percent) entered counseling, and only 536 (13 percent) were able to resolve their problem within the one-year study period. Agencies were able to contact only about one-quarter of those referred for counseling. The proportion of those contacted who agreed to have a screening interview varied among the four agencies from 26 percent to 86 percent.

Like the 1977 *Counseling for Delinquent Mortgagors II* study, this analysis found in-home visits correlated strongly with success. The agency with the greatest success in helping clients become current in their payments was a unit of the local government that preferred in-home visits and worked to gain homeowners' trust. In addition, it used a "directive" counseling method. Despite the positive record of this particular agency, the study concluded that group sessions were effective for dissemination of "routine information."

Unlike other studies, however, Morgan Management's findings showed that three years after the demonstration ended the foreclosure rates were 31 percent for those referred to

counseling but only 20 percent for those not referred. Their default rates were about the same.

The Detroit study was the only one that compared homeowners', counselors', and bankers' explanations of the causes of defaults. Homeowners tended to attribute defaults to circumstances beyond their control, while counselors and bankers most often cited poor money management and failure to understand the responsibilities of homeownership. Morgan Management found that only 2.5 percent of respondents cited the condition of the home at the time of purchase as the primary cause of default; this could be consistent with OSTI's finding that, although foreclosure was often related to housing being in poor condition, default was more likely to be related to loss of a job or a major illness. (The phrasing of Morgan Management's question, which related to the condition at the home at the time of purchase rather than at the time of default, may have affected responses as well.)

Counseling costs, and the amount of time spent with mortgagors, varied greatly among the four agencies studied. Morgan Management did not try to calculate counseling's cost-effectiveness, however.

This study suffered from some data problems. A "substantial amount" of data was missing. Referrals appeared to have been overcounted because homeowners who defaulted intermittently were repeatedly referred for counseling. And mortgagors were not randomly assigned to be referred or not referred.

The Mortgage Foreclosure Prevention Program Collaborative, *Preserving Homeownership: A Progress Report on Mortgage Foreclosure Prevention* (Saint Paul: Wilder Research Center, February 1994); The Mortgage Foreclosure Prevention Program Collaborative, *Preserving Homeownership: A Progress Report on Mortgage Foreclosure Prevention* (Saint Paul: Wilder Research Center, February 1995).

The Mortgage Foreclosure Prevention Program (MFPP) Collaborative, created in 1991 with funding from the Northwest Area Foundation in Saint Paul, Minnesota, is conducting an ongoing study of default and delinquency counseling and other foreclosure prevention measures. Six local organizations in the northwestern United States provide foreclosure prevention services to low- and moderate-income homeowners in urban, suburban, and rural communities. The program has four major goals: to "preserve affordable housing for low- and moderate-income families; preserve family stability; avert private financial loss and public expense; prevent vacant homes and the destabilizing effects they have on neighborhoods."

Results reported to date do not provide separate information for urban, suburban, and rural areas. Short-term results indicate that counseling and advocacy assistance are helpful in preventing some foreclosures (41 percent), and that when combined with financial assistance they are extremely successful, preventing foreclosure for 95 percent

of program clients. The financial assistance has been used most often to provide relatively small loans (averaging \$2,100) to bring payments current, with homeowners agreeing to repay the MFPP loan when their financial circumstances permitted.

The small loans may be effective because the most common reasons for MFPP homeowners falling behind in their payments are financial problems beyond their control, so in effect the small loans buy them time to catch up as they recover from those financial problems. Financial assistance might also be effective because it is provided to families for whom it appears to be the best way to succeed: those who have the capacity to resolve their problems and resume payments in the near future, and who are committed to resolving their problems.

MFPP's early conclusions include a list of steps found to be necessary to make counseling effective in preserving homeownership:

- △ early detection of mortgage delinquency;
- △ early phone call from the mortgage holder as a follow-up to the first mailed notice;
- △ assessing the reasons for delinquency;
- △ managing the crisis through advocacy and counseling; and
- △ managing finances through budget counseling..

MFPP also concluded that most of its clients have "limited skills in budgeting and money management," so financial training is essential. Also, clients benefitted from guidance or assistance in negotiating with lenders, not only because mortgage company procedures are complex, but also because "lenders are much more willing to consider alternatives to foreclosure when they know that an independent and knowledgeable advocate is working with the homeowner to develop a realistic plan for change," particularly if the advocate is also providing the homeowner with financial assistance to bring delinquency current.

Finally, the study has found it is critical for a counseling provider to have a good referral network so that families can find other kinds of help when needed.