

# Rural Voices

THE MAGAZINE OF THE HOUSING ASSISTANCE COUNCIL

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**HOMEOWNERSHIP  
EDUCATION+COUNSELING**

## Dear Friends,

Increasingly, housing experts and practitioners are recognizing that proper counseling is important for homeownership, which in turn is a cornerstone of asset-building and asset security. Given the central role of credit scoring in the mortgage underwriting process, good credit and financial literacy are vital tools for low- and moderate-income homebuyers. Financial literacy and post-purchase counseling are also essential to helping new homeowners manage their expenses, maintain good credit, and avoid predatory lending; these aspects of asset security ensure the long-term success of homeownership efforts. This issue of *Rural Voices* highlights several outstanding housing counseling and education initiatives in rural America.

Financial literacy programs go beyond homeownership initiatives to help low-income families access mainstream financial services, reduce debt, increase savings, or even start a small business. Renters need education and counseling services as much as homeowners; some programs have responded to this need by providing training on tenant rights and responsibilities.

The articles in this issue show the diverse array of counseling and education programs and methods available to community-based organizations and their clients. The Ford Foundation provides a comprehensive overview of these programs and discusses their far-reaching benefits. Two national organizations, Freddie Mac and NeighborWorks®, detail their programs and highlight some of the more valuable resources available to community-based groups. Rural Development's Virginia office describes its statewide efforts to integrate counseling and education with Section 502 mortgage products. NCALL, a counseling provider in Delaware, discusses the value of network-building for providing counseling and education services.

The final three articles describe the efforts of local community-based organizations to develop and operate counseling programs. The Southeastern Appalachian Regional Alliance, the El Paso Collaborative, and Rural Opportunities, Inc. are proving successful at tailoring programs designed for a national audience to meet the particular needs of their clients.

HAC would like to thank the contributors to this issue for sharing their stories with us and demonstrating the powerful impact of their comprehensive and often innovative programs while not shying away from discussing the obstacles and challenges they face.

Sincerely,



Debra Singletary, *Chair*



William Picotte, *President*



Moises Loza, *Executive Director*

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## Section 515 Preservation Issues Draw Hill Attention

Rural rental housing issues are receiving some notice on Capitol Hill this spring. At a House Financial Services Committee hearing on the Rural Housing Service's FY 2004 budget request, Rep. Barney Frank (D-Mass.) questioned RHS Administrator Art Garcia. He was concerned about the amount of funds dedicated to the preservation of units built under the Section 515 program. Frank was also concerned that this program was not receiving top priority from RHS.

RHS's Section 515 program is a key source for subsidized mortgages to developers of affordable rural rental housing.



The Bush administration proposed drastic cuts in Section 515 funding for FY 2004. It would provide no new production monies, only funding for repairs and modifications to existing units. Maurice Hinchey (D-N.Y.) challenged USDA Under Secretary Thomas Dorr's testimony to the House Agriculture

Appropriations Subcommittee on this point. Hinchey deemed the budget cuts unacceptable. He questioned the absence of new units, emphasizing that renters live in poor conditions more often than homeowners.

Rep. Frank hopes to convene a hearing focused specifically on rural housing issues, including Section 515 preservation. No date has been set.

## HAC Begins Innovative Peer Placement Program

The Housing Assistance Council has begun work on a peer placement program through its Rural Community Development Initiative, which is funded by USDA and the Ford Foundation. Experienced staff from local rural nonprofit organizations will be



sent all over the country to tutor and mentor organizations struggling in various subjects.

Staff from Self-Help Enterprises of Visalia, Calif. will spend a week in June teaching the self-help housing development process to people at four organizations: Macon Ranch, La.;

Seventh District Pavilion, La.; James L. Barnes CDC, Ga.; and the Community Action Commission of Belmont County, Ohio. Staff from the Northeast South Dakota Community Action Program will be visiting Midwest Minnesota Community Development Corporation to teach housing counseling strategies and site development.

The peer placement program is available only to 42 groups already selected. To learn when other opportunities arise, subscribe to the free *HAC News* newsletter by visiting [www.ruralhome.org/pubs/hacnews/sub.htm](http://www.ruralhome.org/pubs/hacnews/sub.htm) or calling Luz Rosas, 202-842-8600.

## SHOP Family Meets President Bush

New homeowner Cheryl Anderson and her sons, Justin and Jeremy, met President Bush at a White House Conference on Minority Homeownership. Ms. Anderson and her family had participated in the mutual self-help housing program administered by Western Maryland Interfaith Housing. This program enabled Ms. Anderson to become a homeowner.

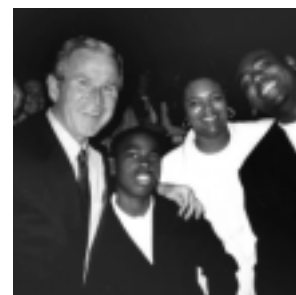


Photo courtesy of Interfaith Housing of Western Md.

The Housing Assistance Council's Self-Help Homeownership Opportunity Program provided Interfaith with loan and grant funding to acquire land and develop sites for 52 homes, including the Andersons'. SHOP and the mutual self-help concept are based on "sweat equity," which means that families contribute a significant amount of labor towards the actual construction of their homes. Ms. Anderson improved her credit history, furthered her education, and found better employment in order to participate in Interfaith's self-help housing program.

## Federal Programs Guide Updated

The Housing Assistance Council recently released a revised edition of a favorite among its publications. *A Guide to Federal Housing and Community Development Programs for Small Towns and Rural Areas* lists over 80 programs, including new programs and updated descriptions of existing programs. Descriptions include a summary of each program's purpose, its eligibility requirements, terms of the funds available, and additional comments if necessary. The guide is free on HAC's website at [www.ruralhome.org/pubs/publist.htm#credit](http://www.ruralhome.org/pubs/publist.htm#credit) or for \$7 (including postage and handling) from Luz Rosas, 202-842-8600, [luz@ruralhome.org](mailto:luz@ruralhome.org).



# Whither Homeownership Education

## AN OVERVIEW

by Kathryn Gwatkin and George McCarthy

Providers face profound challenges nationwide, challenges that are even more severe in rural areas.

Since the late 1960s, homeownership education and counseling (HEC) have become integral parts of efforts to increase low-income families' access to homeownership. Today the industry stands at an important crossroads. While evidence accumulates to show that HEC generates considerable financial and social benefits, prospects for growing, or even maintaining, the capacity of the industry are increasingly dim, as conventional sources of support diminish. HEC providers face profound challenges nationwide, challenges that are even more severe in rural areas where the delivery of HEC is more difficult and support for HEC is harder to find.

### WHAT IS HEC?

A diverse set of activities can be classified as HEC, varying not only in terms of delivery mechanism and provider, but also in curriculum content and purpose. Generally, HEC can be divided into four categories: homeownership education, pre-purchase counseling, post-purchase counseling, and foreclosure prevention. HEC services may be provided in a face-to-face format, individually or in a group setting, or via home study through distance learning or over the telephone. Principal providers include nonprofit organizations, lenders, government or quasi-government agencies, real estate agents, and mortgage insurers.

Increasingly, concerns over the viability of homeownership as a wealth-building strategy for low-income populations have spurred nonprofit HEC providers to offer comprehensive homeownership counseling programs that provide all categories of HEC. In rural areas, vertical integration of nonprofit services occurred as a matter of necessity — there were too few providers attending to too many diverse needs of the popula-

tion to allow for specialization. A good example of a comprehensive approach is “full-cycle lending” provided through the NeighborWorks® network, described more fully in Doug Dylla's article in this issue of *Rural Voices*. These HEC providers, working in both rural and urban settings, support clients throughout the entire life cycle of homeownership from pre-purchase to estate planning.

### REACHING PARTICIPANTS

One challenge faced by most HEC providers is attracting and maintaining contact with clientele. The reasons that people seek to participate in HEC are often quite simple. On the pre-purchase end, homebuyers frequently turn to HEC as a means of overcoming the challenges they encounter as they begin to explore buying a home, such as unfamiliarity with the process or difficulty accessing credit. Participation in pre-purchase HEC is in fact a qualification requirement for many affordable home loan products; Fannie Mae, for example, has required it in most cases since 1994.

To the dismay of some HEC providers, it takes a crisis or near-crisis situation to convince many homeowners of the value of post-purchase interventions. Post-purchase education providers often incorporate attendance incentives, ranging from requiring participation as part of the loan agreement to offering door prizes, into their program design. The issue of how to attract participants to HEC programs is also relevant to questions of how HEC relates to financial literacy training, as it illustrates that without an immediate way to apply such skills, people are reluctant to seek them.

# and Counseling?

## HEC IN RURAL AREAS

Rural infrastructure and demographics create additional challenges for the provision of HEC services in these areas. Low population density, coupled with scarce public transportation, complicates access to HEC. Some organizations, such as the Alaska Housing Finance Corporation, seek to surmount this obstacle through program innovation. AHFC has developed a mobile teaching unit that sets up shop in civic centers, fire stations, health centers, schools, city halls, and even bakeries, allowing it to reach remote communities, even those that lack road or rail connections to Anchorage or Fairbanks. Other challenges, such as lower than average levels of education and income, or concentrations of special needs populations—such as Native American communities living on trust lands or mining communities with a disproportionate population with serious medical needs—hold implications for curricular design. Finally, reduced access to complementary resources, whether social service agencies, affordable mortgages, or even physical housing stock, further complicates the jobs of housing counselors, according to a Housing Assistance Council report on the subject.

## WHY SUPPORT HEC?

Critics of HEC have argued that it is a costly, labor-intensive process, the impact of which has yet to be clearly demonstrated. Indeed, the diversity of program methodology and content, combined with a lack of consensus over how program “success” should be defined (from increased homeownership among targeted populations, to reduced delinquency, to improved self-esteem) impedes efforts to document the benefits of HEC.

Compelling support for HEC’s effectiveness is offered by

Hirad and Zorn’s 2001 analysis of nearly 40,000 Freddie Mac Affordable Gold mortgages, discussed in Craig Nickerson’s article in this issue of *Rural Voices*. Hirad and Zorn found that clients who underwent pre-purchase counseling were less likely to experience serious delinquency than clients with similar observable characteristics who were not counseled. The authors also found that face-to-face counseling provided in classroom or individual settings diminished the propensity for serious delinquency more than HEC provided over the telephone or by mail.

HEC offers benefits to the mortgage industry that go beyond the risk mitigation effects detected by Hirad and Zorn, however. All federally regulated depository institutions are required to comply with the Community Reinvestment Act by serving the entire community in which they operate, including low and moderate-income populations. The government sponsored enterprises, particularly Fannie Mae and Freddie Mac, to comply with affordable lending mandates, must also provide mortgage services to underserved markets and populations.

HEC programs offer important benefits to lenders and GSEs striving to meet these mandates:

**marketing and outreach.** The CRA calls for lenders to meet the credit needs of the underserved markets that fall within their service areas. To comply, lenders need to tailor loan products to the needs of what may be, for them, new markets or subsectors. HEC providers, particularly community-based nonprofits, are ideally positioned to collect market data to support lenders in their efforts to increase market penetration of underserved communities. Furthermore, while undergoing HEC, potential buyers become aware of the range of financial products available, saving lenders significant marketing costs.

**triage.** Mitigating the risks of serving a new client base, particularly one that as a whole may have less experience with credit and/or a more precarious financial situation, calls for assessing the risk profile of this population. Once again, HEC provides an important service to lenders and GSEs, as the education and counseling process offers an opportunity to perform triage on potential borrowers, separating credit-ready clients from those who need significant work on their credit history and those for whom homeownership may not be a viable option. If lenders were to perform the triage function themselves, it would likely lead to higher denial rates for low-income families or people of color (who largely make up the underserved markets). The resultant pattern would in turn reflect poorly upon lenders when disclosed under the requirements of the Home Mortgage Disclosure Act.

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# HOMEOWNERSHIP COUNSELING AND S

## TYPES OF HOMEOWNERSHIP COUNSELING

**Homeownership education** introduces clients to the steps involved in home purchase and financing. It is generally delivered in a group setting or over the phone. Because it is less intensive than other forms of HEC, homeownership education is the least costly type of program to develop and administer. This type of training also boasts the best developed educational materials, which commonly address topics like determining how much a client can afford to spend on housing, the steps in the home purchase and financing process, selecting a real estate agent, finding the right home, the importance of maintenance, and avoiding delinquency.

When done properly, homeownership education provides a sound basis for potential homeowners to decide whether homeownership is right for them, and helps them determine the best house to purchase. Too often, this evaluative component is missing from homeownership education, because the services are offered to comply with affordable mortgage requirements and are made available only after a buyer has signed a purchase and sale agreement.

**Pre-purchase counseling** involves at least some level of tailoring to individual situations, frequently combining general education with more intensive one-on-one counseling. Because it focuses on over-

coming obstacles to homeownership (such as a poor credit history or the lack of savings for a downpayment), it may involve direct intervention in clients' lives and can be time-intensive, sometimes stretching over several years. One-on-one counseling, provided almost exclusively by nonprofit organizations, is generally regarded as the most important, and transformative, component of a HEC program. It is, however, time-consuming and costly; it is also unlikely to generate enough revenue to cover program costs.

**Post-purchase programs** may offer general education on topics like home maintenance skills or budgeting, or they may offer personalized counseling on how to avoid delinquency or default. In contrast, foreclosure prevention programs are typically crisis interventions aimed at preventing homeowners from losing their homes. As such, foreclosure prevention counseling may not begin until a homeowner has already been delinquent for a long period of time, and it focuses on developing a workout plan.

**Foreclosure prevention** is considered the most difficult and most costly component of a HEC program. Successful programs offer intensive one-on-one counseling, budget training, and support classes, and even provide low-interest loans to bring borrowers current on their mortgage payments. HEC providers mediate relationships

**FROM PAGE 3** **client preparation.** Another benefit for lenders when accepting clients who have undergone HEC relates to the pool of clients who require significant counseling to become creditworthy. The counseling may seek to repair or build credit history, or it may support a client's effort to save for a downpayment and closing costs. Regardless, in these cases HEC spares lenders considerable time and effort, whether in terms of reviewing and denying a weak application or in terms of recruiting a second tier of clients once the first, credit-ready, group has been creamed off.

## HOW TO SUPPORT HEC

HEC can be a costly, labor-intensive process, with average costs per client estimated at \$200-\$1,500 depending on the scope of services offered. The current method of supporting HEC serv-

ices, a pastiche of small public subsidies coupled with token and episodic private support, does not invoke the participation of the diverse set of stakeholders that receive, essentially for free, benefits offered by the HEC industry.

Many of the benefits of HEC are not quantifiable. However, using indirect or inferential methods, one can provide a ballpark estimate of the value of HEC to various stakeholders. Such measures are a first step toward strengthening the financial base of support for HEC. The research by Hiram and Zorn has shown that pre-purchase HEC provided in face-to-face settings reduced the propensity of borrowers to become seriously delinquent by about one-third. What is the value of those averted foreclosures to CRA lenders? GSE informants estimate that losses through foreclosure average around \$30,000 and about one percent of mortgages go into foreclo-



# SERVICES

between borrowers and lenders, seeking forbearance and negotiating loan modifications or low-cost refinancing to help borrowers stay in their homes. When the only solution is the loss of a home, HEC providers help to minimize losses for lenders and the impact of foreclosure on the families. The best foreclosure prevention programs maintain contact with clients for up to two years to help reinforce successful workout plans.

The desire to foster asset-building through homeownership has turned the attention of many HEC providers to non-crisis post-purchase support for homeowners. These efforts focus on managing family assets, including the home, to maximize family wealth accumulation. Many of these programs are also gateways into other forms of family support including job training programs, language training, small business incubators, and social supports like preschools or day care centers.

## ADDITIONAL SERVICES FOR POTENTIAL HOMEBUYERS

**Financial literacy**, or financial fitness, education is embedded in many HEC curricula. In general, it aims to give people skills to take control of their financial situation. Such skills strengthen individuals' abilities to avoid traps like predatory lending, to improve their standard of living, to build wealth, and to respond to crises. Financial literacy

training often covers topics such as banking services, saving, investing, credit, debt, money management, and budgeting. The purchase of a home or the danger of losing a home both lead people to recognize the need to gain financial skills and give them a context in which to apply the skills they learn in a class. Thus HEC providers are both well positioned to offer financial literacy training and well served by doing so, as a financially literate individual will be more likely to receive the full benefit of HEC.

**Credit counseling**, like pre-purchase counseling, implies a one-on-one process that is tailored to individual situations. Credit counseling does not necessarily deal with home loans; for example, people may seek credit counseling for help in managing medical debt or credit cards. Homeownership counseling, on the other hand, frequently involves counseling related to a family's entire debt portfolio, particularly in cases where poor debt management has created an obstacle to homeownership, or where other types of debt have contributed to mortgage delinquency or default.


*These categories are drawn from George McCarthy and Roberto Quercia, "Bridging the Gap Between Supply and Demand: The Evolution of the Homeownership Education and Counseling Industry" (Washington, DC: The Research Institute for Housing America, 2000).*

sure over the lives of the loans. This suggests that the value, measured solely as savings from averted foreclosure losses, to the GSEs of HEC is about \$300 per mortgage.

Similarly, there are ways to approximate the value of the screening or triage function of HEC. During the 1990s, Milwaukee led the nation in disproportionate mortgage application denials based on race. This embarrassment led the city to develop a New Opportunities for Homeownership in Milwaukee initiative that formalized agreements between mortgage lenders and HEC providers. Lenders paid \$450 to HEC providers per counseled borrower at the loan closing, offering one measure of how much it is worth to lenders to avoid the use of application denial as a screening technique.

## CONCLUSION

The HEC industry offers a diverse set of products and services that improve the overall functioning of the nation's housing markets. Over the course of three decades, millions of families have been helped to purchase a home, to maintain a home, or to keep a home in the face of foreclosure.

Our challenge is clear: if we want to preserve the HEC industry and the public benefits it provides, we must fully account for the costs, benefits, and beneficiaries of HEC. We must then find a way to compensate HEC providers for the true and total value of the services they deliver. If not, the HEC industry will be suffocated by free riders. The challenge then will be to determine the historical value of what was lost. 

*Kathryn Gwatkin is a program associate and George McCarthy is a program officer at the Ford Foundation. They both work in the Economic Development Unit.*



# Partnerships and Technology Expand Homeownership Counseling Opportunities

by Craig Nickerson

The counseling industry finally has reached maturity, acquiring a sophistication and comprehensiveness that was not present even a few years ago.

The growth in homeownership counseling in America over the past two decades has helped open the door to first-time homeownership for many families, particularly low- and moderate-income and other underserved households. More families than ever before in the history of this nation own a home.

So, should the affordable housing community expect “more of the same” for the next decade? At Freddie Mac, we believe the best is yet to come. One reason is that America’s nonprofit homeownership counselors are serving more people than ever, helping over one million families each year prepare to become successful, long-term homeowners. In my experience, effective counseling is, quite often, the difference between a homeownership program that doesn’t work and one that does.

Nevertheless, there are skeptics who characterize nonprofit housing counseling as tangential to the lending process. The non-believers allege that counseling is a time consuming, inefficient, and marginally beneficial service that adds unnecessary costs to the homebuying process. In their view, counseling is an obligation, not an opportunity.

## PROOF THAT COUNSELING WORKS

Fortunately, we now have definitive proof that counseling works. Freddie Mac’s landmark 2001 study, “A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling,” addresses the concerns of skeptics and demonstrates that pre-purchase homeownership counseling can significantly reduce the 90-day delinquency rate of mortgages.

The growth of secondary market affordable lending programs significantly increased the demand for counseling in the mid 1990s. As a result, in 1993 Freddie Mac required all borrowers in its Affordable Gold program to receive pre-purchase homeownership counseling. Researchers Hiram and Zorn compared almost 40,000 of these mortgages originated from 1993 to 1998 and found that borrowers receiving face-to-face counseling were 34 percent less likely to become seriously delinquent at any time.

These findings show a vibrant, established, and beneficial homeownership education and counseling industry. The counseling industry has finally reached maturity, acquiring a sophistication and comprehensiveness that was not present even a few years ago. In many instances, homeownership counselors are increasingly the initial point of contact for first-time homebuyers — particularly minority and new immigrant families. Homeownership counseling agencies are also provid-



ing a broader range of services than ever before, helping “unbanked” households to access mainstream financial institutions, credit repair, and predatory lending education.

Where do we go from here? Should we expect business as usual for our nation’s nonprofit counseling agencies in this first decade of the 21st Century? The role of the counselor must keep pace with rapid changes being experienced in the mortgage industry, advancements in mortgage technology, and the latest developments in overcoming traditional barriers to homeownership for underserved families. Being in touch with these changes can help the nonprofit agency to be more efficient, increase demand for services, and ultimately enhance financial viability.

**IT’S ALL ABOUT CREDIT**

Families face many obstacles to owning their own homes. Credit, in its many facets, is the most dynamic and perplexing of these homeownership hurdles and counseling agencies will play a prominent role in helping families overcome these obstacles. Our challenge as an industry is to equip the counseling industry with new tools to accomplish this objective. Drawing on our new findings about counseling and analysis of credit risk, Freddie Mac has developed several new mortgage products and consumer outreach efforts that practitioners are using to help borrowers overcome these obstacles. These initiatives include:

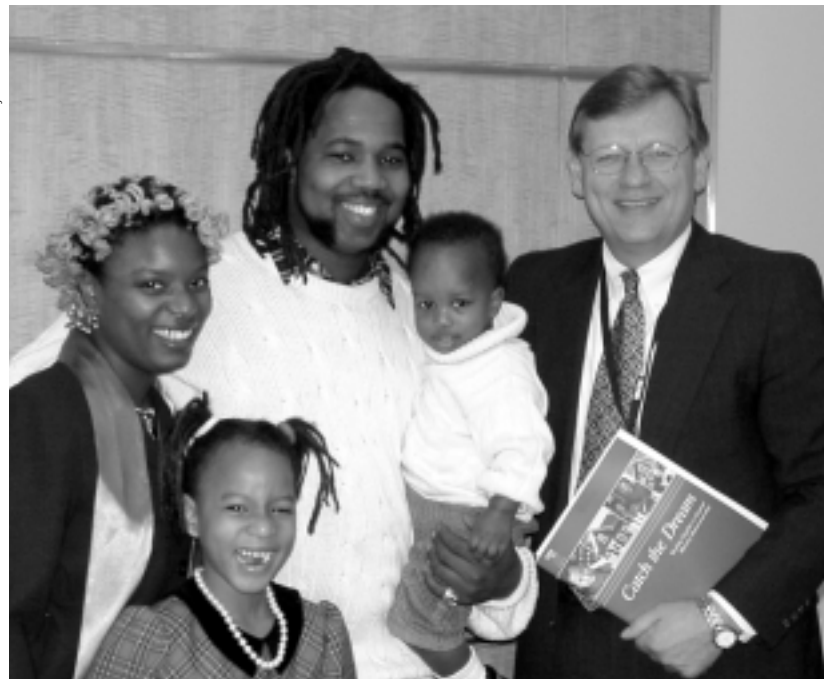
**Lease purchase plus.** Freddie Mac has completely overhauled the traditional lease-purchase program. This new approach to lease-to-own helps prospective homebuyers with no credit or impaired credit by eliminating the need for downpayments and allowing them to use their lease periods to establish or even re-establish their credit reputations.

Through Freddie Mac’s Lease Purchase Plus, a prospective homebuyer, called a lease-purchaser, selects a home, and a housing finance agency or nonprofit corporation buys the home on his or her behalf. The agency serves as the initial owner, mortgagor, and property manager for the lease period of up to three years.

During the lease period, the agency works with the lease-purchaser, offering comprehensive homebuyer education and counseling to ensure the family can successfully progress to full ownership. Counseling is an essential component of this new program. After making timely lease payments to the agency, the family obtains ownership by simply assuming the unpaid principal balance of the existing mortgage.

**creditworks®.** Another joint effort between counseling agencies and Freddie Mac is our CreditWorks mortgage loan product. This national initiative by Freddie Mac, the National

Photo courtesy of Freddie Mac.



Freddie Mac Executive Vice President Paul Peterson meets Jesse Horton and his family from Little Rock, Ark. Freddie Mac’s Lease Purchase Plus program made it easier for the Hortons to overcome credit and downpayment obstacles to buy their first home.

Foundation for Credit Counseling, its participating NFCC member agencies, and Consumer Credit Counseling Services helps people burdened with excessive debt and impaired credit become eligible for a market rate mortgage.

CreditWorks requires that all potential borrowers participate in a debt management program offered by participating local NFCC member agencies. By making payments on time through the debt management program over a 12-month period, and participating in homebuyer pre- and post-purchase counseling, a potential borrower may qualify for a market-rate home mortgage loan, even with a very low credit score. The debt management program and homeownership counseling teach borrowers how to repay debt, re-establish their credit, manage their finances, become eligible for homeownership, and succeed as long-term homeowners.

**MEETING THE NEEDS OF MINORITY FAMILIES**

During the remainder of this decade, more than half of all first-time homebuyers in this nation are likely to be minority families, with different needs, different aspirations, different fears, and different perceptions regarding the homebuying process. Counseling agencies will play a pivotal role in determining whether we effectively assess their needs and respond with the right guidance and mortgage solutions.

As part of this change in first-time homeownership, counseling agencies must be prepared for an influx of interested minority and new immigrant homebuyers

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FROM PAGE 7 over the next few years. New technologies must be adopted that can increase agency productivity and efficiency. Compensation structures with lenders and other funders must become more performance driven. And new educational materials must be utilized for the broader array of services needed — services to include financial literacy and anti-predatory lending.

**en su casa and counselormax.** Recently, Freddie Mac launched a major new Hispanic homebuyer assistance initiative, called En Su Casa, with one of the nation's largest Hispanic service organizations, the National Council of La Raza. This initiative involves national mortgage lenders, locally based lenders, and 20 experienced local nonprofit counseling organizations operating in key markets.

A key element of this homeownership campaign is a new web-based technology tool for housing counseling agencies, called CounselorMax. CounselorMax helps counseling agencies with management tasks such as tracking, scheduling, reporting, and even marketing. It also will help counselors determine a client's readiness for buying a home and even determine which lenders and mortgage products are best suited for the family. Such new tools are going to revolutionize the way counselors do business, and greatly increase the number of households that can be put on the path to homeownership quickly.

**creditsmart<sup>sm</sup>/creditsmart<sup>sm</sup> espanol.** Another successful Freddie Mac educational effort is the national CreditSmart campaign. This financial literacy curriculum educates consumers about credit and money management, provides insight into how lenders assess credit histories, and explains the role of credit in achieving financial goals. CreditSmart was developed in collaboration with five of the nation's historically black colleges and universities and was designed to help consumers understand, build, and maintain better credit.

In the fall of 2002, we joined seven national organizations to announce this curriculum in Spanish, CreditSmart Espanol.

**don't borrow trouble<sup>sm</sup>.** Too often unscrupulous scam artists participate in aggressive marketing campaigns for refinancing and home equity loans that may not be in the financial best interest of the homeowner. These lenders use deceitful practices that strip away homeowners' equity and often jeopardize their ability to retain their homes. In the long run, these abusive practices can weaken a neighborhood's financial stability.

Two years ago, Freddie Mac launched a nationwide public education campaign, Don't Borrow Trouble, to alert and educate homeowners about the dangers of predatory lending practices and how to get help. The counseling community plays a

Photo courtesy of Freddie Mac.



Freddie Mac EVP Paul Peterson joins Mrs. Moore, a first-time homeowner, to celebrate a new affordable townhouse project in Lincoln Heights, a predominantly minority neighborhood in Charlotte, N.C. Mrs. Moore obtained counseling from UJAMMA.

crucial role in the Don't Borrow Trouble campaign. The campaign uses counseling agencies to inform homeowners how to avoid scams and resolve their existing financial difficulties in an informed and prudent manner. Participating states and cities are provided funds to jump-start local campaigns. In addition, public education tools such as a media toolkit, national project coordination, and on-site training by the National Consumer Law Center are provided.

## SUMMARY

The future of the nonprofit counseling industry has never been brighter. With new technology tools, new expanded educational materials, and responsive mortgage products, counseling agencies will increasingly be able to meet the needs of the new homebuyer of the 21st Century.

At Freddie Mac, we envision a counseling industry that will serve as a preferred first point of contact for minority and other underserved families seeking to buy a home — a trusted intermediary who can allay fears and empower prospective homebuyers. And, as counseling agencies demonstrate an ability to put more people on the path to homeownership, it is inevitable that the level of respect and compensation for these invaluable services will also continue to grow.



Craig Nickerson is Vice President of Community Development Lending for Freddie Mac. He is responsible for the design and implementation of Freddie Mac's single-family affordable housing public-private lending initiatives. The study mentioned in this article is published as Abdighani Hiram and Peter Zorn, "Pre-purchase Homeownership Counseling: A Little Knowledge is a Good Thing," in *Low-Income Homeownership: Examining the Unexamined Goal*, eds. Nicolas Retsinas and Eric Belsky (Washington, DC: Brookings Institution Press, 2002). For more information on how to bring a CreditSmart workshop to your community, contact one of Freddie Mac's partners identified at [www.freddiemac.com/creditsmart/home.html](http://www.freddiemac.com/creditsmart/home.html).

Photo by Sean Bennett, Neighborhood Reinvestment Corporation.



A Rhode Island couple participates in a NeighborWorks® homeownership counseling class with counselor Irene Davis.

# Keeping a Grip on the American Dream

COUNSELING BEFORE AND AFTER PURCHASE HELPS HOMEBUYERS

by Doug Dylla

Homebuyer education and counseling have proven to be effective for many homebuyers seeking safe, decent, affordable housing.

Recognizing that homebuyer education and counseling are keys to successful homeownership, the NeighborWorks® system has been a national leader in providing these services for the past decade. Founded by the Neighborhood Reinvestment Corporation, the NeighborWorks network is a collaborative group of community-based nonprofits that has evolved from a few organizations to more than 220 members active in more than 2,300 communities across the country. NeighborWorks organizations operate in suburban neighborhoods and rural areas across 49 states and Puerto Rico.

When they launched a Campaign for Home Ownership, NeighborWorks organizations heard from many families who were interested in buying a home but not yet financially ready for it. This led to a concerted effort to help them. The Full-Cycle Lending<sup>SM</sup> program involves lenders, government agencies, and nonprofit NeighborWorks organizations working together. The system helps customers who might not qualify for — or do not know how to obtain — conventional mortgages by teaching them about the responsibilities of homeownership, and reduces the risk of delinquency and foreclosure.

CONTINUED ON PAGE 10



FROM PAGE 9 **FINANCIAL EDUCATION**

One component of the Full-Cycle Lending approach is pre-purchase homebuyer education, through which the homebuyer learns about the purchase process with a supportive organization that helps them clear up credit problems, find a home they want to buy, and coordinate any needed rehabilitation. NeighborWorks network members assist families early in the homebuying process through a financial education program called Financial Fitness. This program helps families become more aware of common pitfalls and how to avoid them. It also assists them with financial management and planning so that they can make the most of their incomes, savings, and assets to strengthen the homebuying process.

In April 2002 Neighborhood Reinvestment also began using the Federal Deposit Insurance Corporation's Money Smart financial literacy program to train adult educators and teach money management skills to thousands of potential homebuyers. This program gives participants an understanding of basic finances and healthy banking relationships to help them become successful homebuyers for the long term, benefiting both the individuals and their communities.

By the end of 2002, NeighborWorks organizations enrolled more than 8,700 people in the training, and to date more than 5,500 have graduated. Of these, nearly 59 percent are minorities, 91 percent are renters, 66 percent are women, and 75 percent have incomes below 80 percent of the area median income.

**HOMEBUYER EDUCATION**

The NeighborWorks network and Neighborhood Reinvestment have provided high quality homebuyer education for more than 10 years. This educational effort includes interactive group training combined with individual counseling for each participant. As a result, graduates are better consumers, more knowledgeable about the complex process of buying a home, more prepared for the responsibilities of homeownership, and more default-resistant in periods of economic hardship. Since 1993, more than 400,000 households have graduated from NeighborWorks homebuyer education programs.

The homebuyer education standards used in the Full-Cycle Lending process include:

- ▶ eight hours of group homebuyer education for potential homebuyers with follow-up individual counseling;
- ▶ trainer certification after completing the five-day Homebuyer Education Methods: Training for Trainers class at

Photo by Sean Bennett, Neighborhood Reinvestment Corporation.



Caption for page 9

Housing counselor Darryl Williams of the NeighborWorks® HomeOwnership Center at Neig

the Neighborhood Reinvestment Training Institute and passing the course exam;

- ▶ course content such as assessing readiness to buy a home, budgeting and credit, financing a home, selecting a home, maintaining a home, and finances;
- ▶ tailored content, delivery, and format to meet the needs of participants (rather than a one-size-fits-all approach);
- ▶ a certificate of completion for customers who successfully complete the training; and
- ▶ a code of ethics for all volunteer trainers.

**POST-PURCHASE COUNSELING**

Another key component of the Full-Cycle Lending process is post-purchase counseling, an integral part of its overall success.



Neighborhood Housing Services of Phoenix assists Sherry Amorosi (left) and Monica Murrieta.

Post-purchase counseling has evolved as the campaign expanded into different markets and as the environment in which it operated also changed. For example, ten years ago, predatory lending was unheard of. Today, it is so prevalent that dozens of NeighborWorks organizations now have programs to combat its effects.

Why post-purchase services? In a nutshell, because failure is costly. Studies have shown that only one out of every five persons who contact a NeighborWorks organization for home purchase assistance successfully completes the transaction. Pre-purchasing counseling for the 20 percent who need it typically costs a NeighborWorks organization between \$300 and \$1,500 per client. Often these buyers also benefit from subsidies that accompany their mortgages. If loans go into default or foreclo-

sure, the losses can be high to the mortgage partners involved and are devastating to the borrowers. Thus it makes financial sense to provide long-term preventive services to customers.

There are other critical advantages to offering post-purchase services. They increase the confidence of new homebuyers — making them stronger, more self-reliant, and more comfortable in their role as homeowners. They help strengthen neighborhoods by bringing new people with fresh ideas and fresh energy into the community — and by making it possible for them to stay. (Little harms a neighborhood more than a spate of foreclosures, which often lead to abandoned properties that become eyesores and blights in the area.)

Post-purchase counseling also strengthens the NeighborWorks organization and its identity, because post-purchase products and services are often otherwise unavailable. It also provides a means for retaining contact with key customers.

Most important, post-purchase services are proactive and preventive in nature. They underscore the systematic and comprehensive approach of NeighborWorks Full-Cycle Lending — giving new homeowners the skills, tools, and resources they need to avoid problems before they occur.

As marketing homeownership to lower-income families has become better understood, the types of products and services that are offered post-purchase have evolved. They now fall into four general categories:

- ▶ general information, products, and services that build the capacity of new homeowners;
- ▶ tools and education to aid in home maintenance;
- ▶ resident involvement and leadership development; and
- ▶ delinquency and foreclosure-intervention strategies.

#### A PROVEN SUCCESS

So far, homebuyer education and counseling have proven to be effective for many homebuyers seeking safe, decent, affordable housing. The low loan delinquency rates of buyers assisted by the NeighborWorks Campaign for Home Ownership attest to local NeighborWorks organizations' success in providing pre-purchase and post-purchase services that are significant benefits to their clients.



Doug Dylla (ddylla@nw.org) is national coordinator of the NeighborWorks® Campaign for Home Ownership at Neighborhood Reinvestment Corporation.

# USDA Rural Development Teams with Others to Offer Homebuyer Education in Virginia

by Philip H. Stetson

Perhaps the greatest value has been helping participants to realize what changes they need to make in order to purchase a home.

The need for homebuyer/homeowner education is greatest for the low- to moderate-income, first-time homebuyers typically served through the U.S. Department of Agriculture's Rural Housing Service mortgage programs. Yet ironically, since courses are often unavailable and USDA has no source of funds to cover the costs of providing them, RHS has been unable to develop a workable arrangement to require such education in its Section 502 direct lending program, which makes mortgage loans directly to rural residents. In RHS's Section 502 guaranteed loan program, which provides government guarantees for mortgages issued by banks or savings and loans institutions, homeownership counseling is required where it is "reasonably available."

In Virginia, USDA Rural Development staff (who implement RHS programs) have long recognized the need for homeownership education and have been involved in making it available in rural areas. The state's entire affordable housing community has banded together under the leadership of the Virginia Housing Development Authority to create a network of certified providers. In addition to many Rural Development employees, nonprofit housing providers, real estate agents, consumer credit counselors, and conventional lenders have attended VHDA-sponsored courses to become certified trainers.

Among the many advantages of offering homeownership education through this partnership with VHDA is that there is no cost to the applicants, as VHDA provides all the materials and arranges for all the local advertising. Additionally, VHDA's web page provides a calendar with the schedule posted months in advance. These factors reduce the administrative requirements and initially allowed Rural Development's field staff to focus on providing the classes themselves.

As a supervised credit program, Rural Development has always provided elements of credit counseling in originating direct loans, but this more formal instruction expands that

Photos courtesy of USDA Rural Development, Virginia.



knowledge to include more aspects of the homebuying and homeownership process. The course developed by VHDA provides a continuum of topics starting with a discussion of advantages, disadvantages, and responsibilities of homeownership; proceeds to cover home inspections, the role of Realtors®, negotiating the purchase, and closing on the loan; and concludes with maintenance and continued responsibilities. Depending on the area, class sizes range from as few as one or two people to as many as 15 or 20.



Rural Development began its involvement with Virginia's statewide homeownership education initiative in 1997. At that time, agency restructuring consolidated some offices in the state and use of the guaranteed program was escalating rapidly, but homeownership education was not available to many guaranteed loan applicants in the more remote parts of rural Virginia. In addition, Rural Development wanted to offer classes to direct loan applicants who needed the information to increase their chances for mortgage approval.

In 1999, VHDA initiated a more formal and comprehensive certification training requirement and Rural Development began to revisit its role as the primary provider in rural Virginia. With human resources stretched to their limits as the agency tried to address many priorities, it was time to get others involved. The staff was asked to identify others in the community who could become certified trainers to help share the load.

Rural Development has enlisted the cooperation of a cadre of affordable housing providers, primarily lenders and nonprofit

through one-to-one training. One of the benefits of Rural Development's continued involvement is its ability to be flexible by offering this individualized training, as well as presenting classes at nontraditional times and with relatively short notice.

With credit issues being the most common reason for applicants' not qualifying for Rural Development's Section 502 direct homeownership program, Rural Development tries to ensure that the training places a great deal of emphasis on personal financial management. At the same time, it must be structured in such a way that the other facets of the course do not detract from or interfere with the message of managing the household finances to correct each family's particular credit problems.

Homeownership education has had a positive effect on delinquencies in Virginia, providing a good case for making it not only a requirement for first-time buyers, but also affordable and widely available. VHDA loan performance data show that, in one pool of mortgages similar to Section 502 mortgages but without an interest subsidy, about 30 percent of the



agencies, to become certified trainers and assume a greater role in offering the homeownership education classes. The majority of rural classes are now provided by others, but Rural Development staff still plays a role when needed. For example, in a few isolated situations, no other providers are available.

Scheduling issues often dictate alternative approaches as well. Since the classes are designed to be six hours long, usually taught in two three-hour sessions, sometimes families or single-parent households have unique needs that must be accommodated

delinquent borrowers had received a certificate of training while 70 percent had not.

Homebuyer education has helped Rural Development to build a pipeline of qualified applicants. Counseling sessions and homebuyer education have had some success in marketing the agency's loan programs. Perhaps the greatest value has been helping participants to realize what changes they need to make in order to purchase a home.

Fannie Mae, Freddie Mac, and

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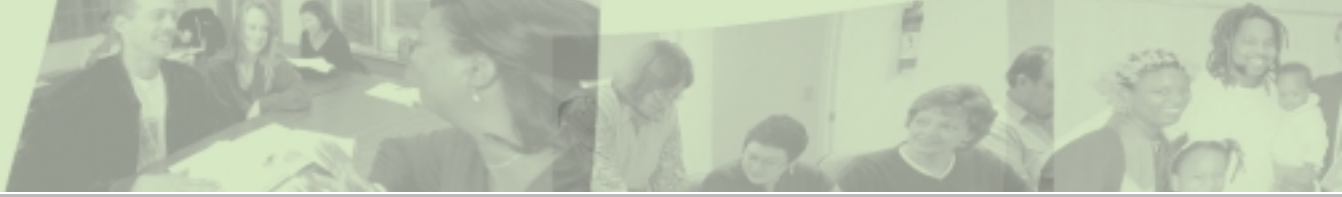


Photo courtesy of NCALL Research, Inc.



## NCALL Combines Counseling with Financial Assistance for First-Time Buyers in Delaware

by Debbie J. Andrews and Joe L. Myer

To assist first-time homebuyers with the funds they may be lacking, Delaware governments at the state, county, and local levels have created several downpayment and settlement assistance programs.

**H**omeownership education and counseling services have been an integral part of NCALL Research's work since 1989. A nonprofit housing organization based in Dover, Del., NCALL provides a number of housing programs delivering direct services to residents throughout Delaware and technical assistance to other housing organizations in a multi-state region.

NCALL's effort in the mid 1980s to package USDA Rural Development Section 502 mortgages for modest-income rural residents led the organization to create its statewide pre-purchase housing counseling program. The program now serves low- to moderate-income first-time homebuyers receiving mortgage assistance through state and county programs as well.

It uses a proven, state-of-the-art curriculum that walks the

families through every step of the homebuying process. The curriculum emphasizes money management skills, resolving credit problems, establishing savings, evaluating housing options, and comparing available mortgage products and downpayment and settlement assistance programs. In addition, NCALL's counselors prepare the families for the responsibility of homeownership.

Initial workshops are held monthly in all three of Delaware's counties and are followed by one-on-one counseling sessions tailored to each client's individual needs. The counselors are available to the families throughout the entire homebuying process, and families using Rural Development's Section 502 direct mortgage program receive assistance in preparing their mortgage applications. Clients receive a certifi-

**NCALL's Housing Counseling Successes**

	FY 2002	FY 1998-2002
Clients counseled	1,107	6,581
Mortgage submissions	493	2,583
New homeowners	486	2,420
Mortgages leveraged	\$50,240,584	\$227,332,051

cate of completion prior to settling on their new home.

During fiscal year 2002, NCALL assisted 486 low-income Delaware families in becoming homeowners.

Many partnerships in Delaware have been essential to this success by reducing mortgage rates, reducing down payment requirements, and using flexible underwriting guidelines for homebuyers who have completed NCALL's counseling program. Some banks in the state have met their Community Reinvestment Act obligations by creating affordable mortgage programs for first-time homebuyers. A rate reduction of 1 percent is typical for these programs.

In addition to the lenders' mortgage programs, the Delaware State Housing Authority offers a single-family mortgage revenue bond program for first-time homebuyers. Credit card banks have also been instrumental in keeping mortgage dollars flowing for special mortgage programs by purchasing these mortgages from the originating banks.

Attractive financing also comes from the Rural Development Section 502 direct homeownership program for families with low and very low incomes. NCALL seeks to pull as much Section 502 financing as possible into Delaware to serve rural households with modest incomes. To expand the limited dollars offered by Rural Development's program a partnership with Discover Bank is available to leverage mortgage loans to NCALL's clients. Rural Development provides a mortgage for the majority of the purchase price and Discover provides another loan for the remainder.

A successful new partnership forged by Chase Manhattan Mortgage Corporation and NCALL provides homeownership education and counseling to homebuyers enrolled in Chase's Fast Track Mortgage Loan Program. These mortgage-prepared loan applicants attend a Saturday workshop followed by a one-time individual session with their housing counselor to review their credit report, proposed homeowner's budget, and financial information.

Delaware's housing counselors have also been involved in developing a new Section 8 homeownership program in the state. The New Castle County Department of Community Services, Delaware State Housing Authority, Chase Manhattan Mortgage Corporation, Citizen's Bank, and the counselors have been working together in partnership to arrange home purchase assistance for this new program offered to families who currently participate in the federal Department of Housing and

Urban Development's Section 8 rental program. The program is expected to be available to the families by April 2003.

To assist first-time homebuyers with the funds they may be lacking to purchase a home, Delaware governments at the state, county, and local levels have created several downpayment and settlement assistance programs. They provide funds in the form of second mortgages or grants ranging from \$5,000 to \$10,000. All of these programs require participants to complete pre-purchase homeownership counseling. In fiscal year 2002, 61 percent of the homebuyers who participated in NCALL's counseling program accessed one of the available downpayment and settlement assistance programs to purchase their homes.

NCALL has obtained funding for our homeownership program through a variety of sources. Some of the larger funders over the years have been Bank One, Discover Bank, JP Morgan/Chase, PNC Bank, Deutsche Bank, First Union/Wachovia, the Delaware State Housing Authority, and HUD.

Banks have been the greatest supporters of housing counseling in Delaware. Grants from banks for housing counseling purposes range from less than 1 percent to as high as 17 percent of NCALL's annual counseling budget. Credit card banks, which do not do retail lending such as home mortgage lending, are able to support homeownership efforts by making grants for homeownership counseling.

As a HUD-certified housing counseling agency, NCALL seeks funding annually from HUD. This core funding has been helpful, but generally makes up about 5 percent of the counseling budget each year. In each of the past ten years, the Delaware State Housing Authority has provided NCALL with a grant equal to half the amount of our Rural Development packaging budget. Limited assistance from governments who provide downpayment and settlement help is also available. From time to time we seek donations from our successful new homebuyers. New Castle County Realtors® and professionals hold an annual dinner event and auction to benefit housing counseling statewide, which provides some additional help. Two banks support NCALL's operating budget by using their print centers to print our "Preparing For Homeownership" booklets, saving us \$5,000 or more each year. NCALL has also successfully sought small grants from major insurance companies. An occasional grant from a funder such as the Fannie Mae Foundation helps achieve the annual budget goal as well.

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# Homebuyer Education Benefits Ripple Throughout Appalachian Counties

by Dee Hayes

Low-income families in the southeastern corner of West Virginia suffer dearly from the need for affordable housing.

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The Southeastern Appalachian Rural Alliance's experience with developing a housing counseling program has shown it the powerful impact that education can have on people's lives. Low-income families in the southeastern corner of West Virginia suffer dearly from the need for affordable housing. Recent surveys have confirmed that affordability is the primary housing concern for the elderly, low-income, and special needs families in our community. SARA's housing counseling program strives to meet these families' needs in a way that allows them to live with the dignity and grace they deserve.

SARA's parent organization, the Greenbrier Housing Authority, was established in Lewisburg, W.Va. in 1984. GHA's primary goal is to provide rental assistance to very low- and low-income families. Today, it provides this service to over 300 families in Greenbrier, Pocahontas, and Monroe counties, including 20 households participating in the Family Self-Sufficiency Program. The FFS program offers savings accounts, resume writing assistance, job counseling, and education programs for participants. The goals of the families in FSS include financial self-sufficiency and homeownership.

The GHA wanted to expand the services available to the community and incorporated SARA as a nonprofit organization in September 2000. SARA's purpose is to develop and manage affordable housing units and to create economic opportunities for low- and moderate-income families. By working initially on homeownership programs, SARA gradually made a noticeable difference in the housing market. However, a lack of funding limited SARA's expansion of services.

This barrier was broken through in summer 2001, when SARA was awarded a USDA Rural Development technical assistance grant for its homebuyer education and counseling initiative. Over the ensuing two years, SARA has been able to educate participants on how to find affordable housing, how to maintain a residence, and how to plan for maintenance and repair. The grant has also enabled SARA to project future needs within the community and to begin planning for addressing those needs. Additional funding from GHA and the United Way allows SARA's staff to receive training on foreclosure prevention, credit counseling, and financial fitness, all extremely important issues for SARA's work.

SARA's counseling program has grown beyond its greatest expectations. To date, SARA has counseled more than 150 families from Greenbrier, Monroe, and Pocahontas counties. As a result of counseling assistance, 27 low- and very-low

income families have purchased homes through a mortgage program funded by the federal HOME program. Some of those families were recipients of Section 8 vouchers; by moving into homeownership they enabled other families to receive Section 8 assistance. Homeownership counseling therefore doubles the opportunities for affordable housing.

SARA has helped other families obtain mortgages through the West Virginia Rural Development office. After families complete homebuyer education and credit counseling, they then qualify for Section 502 guaranteed mortgages with Rural Development. SARA seeks affordable mortgages for low-income families from sources that suit our customers' needs. The staff works with both lenders and clients to assure comfort and ease throughout the entire process.

Victor and Diane Weiford are perfect examples of how our program has touched a family and helped them achieve their goals. The Weifords, married for 13 years with two children, resided in a 600-square-foot apartment for ten years. Victor works as a manager for a local one-stop shop and Diane is a full-time homemaker. Victor attended SARA's homebuyer education counseling class because their small apartment simply could not house their growing family. Victor also had dreams and ambitions to begin his own business. His artistic talents were not being used, and he was frustrated and cramped.

The Weifords diligently saved their money, paid cash for purchases, and consequently had credit reports that every loan officer loves to see. After 11 months, SARA was able to help the Weifords purchase their first home. I stopped the other day to say hello, and Victor handed me his new business card. He was on his way to the one-stop shop for the evening shift, but he had managed to finally start working on his own business. The pride they felt for their accomplishments was so evident it was almost tangible and I was happy to have been able to help them.

The Weifords are typical of the hard-working families in our communities. They live in a rural area that does not offer enormous salaries but they have managed to obtain their dream, the American dream, through diligence and honest labor.

SARA's and GHA's services touch all aspects and livelihoods in our communities, not just a select group. It should be remembered that the income generated from all of these transactions was disbursed among real estate agents, sellers, appraisers, attorneys, surveyors, insurance agencies, and many other service providers within the counties served. As a result, the technical assistance grant awarded to SARA has had a direct

economic impact on our community.

One of SARA's goals is to help our clients maintain homeownership, not just obtain it. It is vitally important that we stay in close contact with our clients in order to provide information on repair and maintenance and to offer them guidance in times of financial need. Mindful of that, the next major project SARA hopes to tackle is the implementation of financial fitness and home repair and maintenance modules.

Our goal is to provide them with the knowledge needed to be self-sufficient homeowners. The program will work by bringing homeowners into a "home shop" environment. Participants will be taught safety, basic tools, daily maintenance, the do's and don'ts of electricity, and related items. We will show them how to determine whether a contractor is qualified and we will teach them ways to determine whether they are being overcharged for services provided by contractors. At the same time, we will monitor our clients' financial fitness, and help with the budgeting practices that are so vital to a family with a low income.

Our relationship with our clients is based on the utmost respect regarding their privacy in credit issues, but we will be firm and frank with the family if foolish spending habits become apparent. SARA's staff has begun training to provide guidance for those households that are nearing foreclosure. If there is any possibility that foreclosure can be avoided and the homeowner establish stability, SARA will have done part of its job.

As the services and programs offered by SARA grow and take shape, it is extremely important that SARA do the same. Office space, conference/teaching areas, and most importantly our home repair and maintenance shop, need to offer comfort and security to those who are participating. It is our intent to provide a strong learning environment by obtaining property very near the Greenbrier Housing Authority. This will allow the organizations to support each other, but will also allow each group to grow individually.

The USDA technical assistance grant and our relationship with Rural Development staff have greatly supported SARA and its programs. By working with both local and state level employees, SARA's staff has broadened its capacity, making it a greater benefit to the community. It is SARA's hope and intent to continue helping families meet their housing needs.



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Photo courtesy of Rural Opportunities, Inc.



## Counseling Helps ROI Address Critical Farmworker Housing Needs

by John Wiltse and Jean Lipani

When farmworkers and other low- to moderate-income families have a basic understanding of banks and financial services, ROI's First Time Homebuyer Program can assist them in becoming homeowners.

Farmworkers put food on our tables, but when it comes to accessing decent, affordable housing these hardworking people are often left out in the cold. While having a good apartment or livable on-farm housing is one big step up, farmworkers, like most low-income families, dream of one day owning a home of their own. Rural Opportunities, Inc. has had some limited success in helping farmworkers to achieve homeownership through intensive one-on-one homebuyer counseling.

Both migrant and seasonal farmworker families face some of the worst housing conditions endured by anyone in the United States. Severe overcrowding, dilapidated housing, and lack of adequate bathroom and kitchen facilities are commonplace. Farmworkers who do find adequate housing often

spend too much of their income for rent, forcing families to choose between food, clothing, health care, and housing.

Rural Opportunities, Inc., based in Rochester, N.Y., has been working for 34 years to address the critical needs of farmworkers and other rural poor families across a service area that includes New York, New Jersey, Pennsylvania, Ohio, Indiana, and Puerto Rico. ROI has developed over 5,400 units of affordable housing and has assisted over 1,500 families in becoming first-time homebuyers.

ROI has encountered many challenges in assisting farmworkers to become homeowners. One is the language barrier. While interpreters are available in Pennsylvania, for example, we have a diverse farmworker population consisting of



Hispanics from several different nations with Spanish as a common language. Within this population, however, there are several ways of interpreting meanings of homeownership-related documents and references to educational materials. A word or term that someone from Mexico would understand may mean something entirely different for someone from Puerto Rico.

Second, credit barriers such as the lack of traditional credit or other credit issues are common among the farmworker families we serve. Since most lenders want to see at least three traditional sources of credit or four non-traditional sources, it may take some time for a farmworker family to build their credit before they can consider qualifying for a mortgage. Credit issues may also take a longer time for farmworkers to remedy than for other first-time buyers due to their lower annual incomes. In fact, seasonal fluctuations in farmworkers' income and their very low average incomes can themselves be barriers to homeownership.

One of the biggest barriers is the lack of experience with or understanding of banking and credit. Many farmworkers have never had any contact with banks, and cultural and language barriers lead some to mistrust financial institutions.

ROI is working to overcome all of these difficulties through financial literacy training for farmworker families before they enter ROI's First Time Homebuyer Program. The ROI staff in Muncie, Ind. recently launched a Spanish language financial literacy program entitled "Hablemos De Dinero" (Let's Talk About Money). This program, funded by the American Express Foundation and the Neighborhood Reinvestment Corporation, provides vital financial information to the underserved Hispanic target population, especially to farmworkers and recent immigrants. Program goals include training 200 families, 50 of whom will enroll in ROI's homebuyer education program. In addition, ROI will employ a train-the-trainer approach to provide training and support materials so at least ten other organizations across Indiana can reach out to farmworkers and other Spanish-speaking populations.

In 2001, a group of ten farmworkers completed a six-week financial literacy program held at the Hartville Migrant Center in rural northeast Ohio. Funded by a grant from the Presbytery of the Muskingum Valley, this program offered Spanish language instruction in banking and credit basics. One of the participants, Hilario Montalvo, said, "This program has given me a better understanding of how banks work and the services banks provide. There should be more programs like this that explain how we can use different services in this country."

ROI is seeking additional funding to offer this training series in other farmworker areas throughout northeast Ohio. Financial literacy provides the first step for many farmworkers in working

toward the long-term goal of homeownership.

When farmworkers and other low- to moderate-income families have established a basic understanding of banks and financial services, ROI's First Time Homebuyer Program can assist them to become homeowners. Eligible families participating in the homebuyer program may receive closing cost and/or downpayment assistance from a variety of state and federal funds. The focus of the First Time Homebuyer Program, however, is education and counseling.


There are four steps all families must attend in the First Time Homebuyer Program.

- **Orientation** is the introduction to ROI and the First Time Homebuyer Program eligibility requirements.

- **Homebuyer education** is a mandatory 10- to 12-hour course that all participants must successfully complete in order to receive assistance through ROI. The course covers the homebuying process including readiness to buy, credit and budgeting, shopping for a house, processing/underwriting, and the closing. At least five hours of the curriculum cover basic financial management.

- A **one-on-one interview** with a certified homeownership counselor is scheduled for each family. Together the counselor and the family review the credit report and other pertinent documents to determine how much mortgage the family can afford and the type of assistance needed, and they develop a personal action plan.

- **Post-purchase counseling** is included because education does not end when the family closes on their home. Rural Opportunities wants to make sure that families stay in their homes. Post-purchase assistance is either individual counseling or group workshops.

While ROI has barely scratched the surface in terms of meeting the critical housing needs of farmworkers in our service area, the projects and programs developed to date provide a solid foundation for new initiatives in the coming years. We are joined in this effort by a network of highly skilled farmworker housing providers around the country, from whom we have learned much. We hope this article may lead other organizations around the country to examine how they might be able to address the critical housing needs of farmworker families, who epitomize the working poor in their communities. 

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Photo by David Arizmendi.

# Understanding

## THE KEY TO MEETING FINANCIAL EDUCATION NEEDS IN THE COLONIAS

by JoAnna Guillen

Border residents are reluctant to approach banks for credit due to a variety of cultural, language, and socio-economic barriers.

**M**any advances have been made recently in educating low-income families across the country to prevent them from becoming victims of unscrupulous lenders and financial service providers. Several excellent models now exist to serve the needs of various audiences including low-literacy adults and immigrant populations. However, organizations that serve residents of the U.S.-Mexico border agree that none of these models seems to be a good fit. Now a nonprofit organization in El Paso, Texas is addressing this need by developing a comprehensive housing counseling, money management, and financial planning model designed especially for this population.

The colonias are underdeveloped subdivisions along the U.S.-Mexico border characterized by inadequate infrastructure (paved roads, water, and sewer services) and substandard housing. Colonias residents generally own their homes, and often construct or add to the structures themselves as funds become available.

Lack of financial information, blemished credit or lack of credit histories, and lack of collateral keep low-income border colonias residents from accessing mainstream financial services. Studies have also found that border residents are reluctant to approach banks for credit due to a variety of cultural, language, and socio-economic barriers. As a result, they are easy prey for predatory and subprime lenders who exploit these families' lack of knowledge or access to regulated and less costly mainstream financial services. Few, if any, colonias residents have checking

or savings accounts and a majority must rely on fringe financial services to meet their credit needs. Most pay cash for purchases and any financing they are able to obtain generally comes from owners/developers, pawn shops, or finance companies at significantly higher rates and fees than those charged by traditional financial institutions.

To break the cycle of poverty and move families beyond subsistence level, these families need to increase their personal savings rates and access to capital. They also need financial literacy services to show them how to save and invest their meager incomes, rather than squander what little they have on interest, fees, and refinancing schemes perpetrated on them by predatory lenders.

Border residents need cultural- and language-appropriate financial literacy education and housing counseling to help them understand and utilize legitimate financial services. The majority of the existing Spanish language curricula are not designed for colonias populations because

- ▶ the emphasis is primarily on “homebuyer” education rather than “homeowner” issues;
- ▶ materials assume a ninth to twelfth grade reading level and most colonias residents have no more than a sixth grade reading level; and
- ▶ materials are not “culturally appropriate” — the frame of reference is for people educated in the United States rather than for immigrant and border populations.

With the growing number and complexity of financial



transactions required to function in today's economy, colonias residents will become further marginalized and isolated if they do not acquire financial literacy and the related skills needed to participate in the financial mainstream. A grant from the National Endowment for Financial Education is making it possible for the El Paso Collaborative for Community and Economic Development to fill the gap.

The El Paso Collaborative is one of 13 organizations nationwide established with initial funding from the Ford Foundation to build the capacity of local, nonprofit community development corporations. Its mission is to facilitate affordable housing, homeownership, and economic development in the region, while building the capacity of local CDCs to develop and manage a variety of housing programs and services. It administers three core programs in collaboration with and for the benefit of low-income, predominantly Hispanic families served by its CDC network: a community design center for nonprofit housing development, a rural housing revolving loan fund, and an Individual Development Account program. It also carries out a variety of innovative housing counseling, financial literacy, lending, technical assistance, advocacy, and networking activities that support and enhance the quality of these core programs.

The goal of the Collaborative's project is to help border residents build assets and wealth, by establishing a foundation of saving and investment linked to their most basic asset — a home. It will do so by providing them with training and edu-

cation to help them establish savings or borrowing goals, establish or repair their credit, manage their limited budgets, and acquire or protect their minimal assets. The model will target predominantly Hispanic, low- and very-low income immigrant families whose traditional values are often in conflict with money management practices in the United States.

The financial literacy and housing counseling manual will utilize non-traditional counseling tools including novelas (bilingual, comic-book style, culturally appropriate publications) designed to inform and educate colonias residents about borrowing, purchasing, and maintaining real property; financial literacy, financial planning, and predatory lending; and rental rights and responsibilities. Most importantly, the model is being developed with input from various grassroots colonia organizations and the residents themselves.

A preliminary step often overlooked by well-meaning organizations is asking for the comments and opinions of the population to be served. Therefore, prior to beginning work on the manual, the Collaborative conducted a series of surveys and focus groups with border residents in El Paso County, Texas, the Rio Grande Valley, and southern New Mexico to gather information regarding their financial practices and to obtain input on the issues that concern them the most. Information was also obtained in these areas: access to credit; issues related to land and home purchasing, construction, and remodeling; attempts to obtain home insurance; financial literacy and housing counseling topics/themes of interest; and the pros and cons of various methods of outreach and education targeting colonias residents.

As anticipated, the more urbanized communities just outside the city limits of El Paso were somewhat more "mainstream" in their financial practices than their rural counterparts in the Rio Grande Valley. But, in general, the information gathered from residents verified the Collaborative's assumption that this population needs a customized curriculum designed to meet their unique needs. The common themes that surfaced are highlighted below.

**banking.** Of those who used financial institutions, the majority had savings rather than checking accounts. The reasons given by those who did not use mainstream financial institutions were the requirement of a social security card or state-issued identification; their lack of writing skills to complete a check properly; and their inability to record transactions, which could result in errors, bounced checks, and fees. Lack of proximity to financial institutions in rural areas also played a significant role in being "unbanked."

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**FROM PAGE 21** **home completion/repair.** The majority needed to complete their homes or make substantial repairs, yet were uncomfortable with the idea of long-term debt and mortgaging their homes. Among those respondents who might have been interested in loans, several indicated that they could not finance the repairs or add-ons to their homes through any conventional method due to lack of credit, poor credit, or insufficient income to meet monthly payment obligations, and would pay for improvements with savings or income tax refunds. The majority needed technical assistance with cost estimating and material selection. Many younger homeowners were looking for opportunities for low-interest loans to purchase materials and conduct the improvements themselves. Some indicated that access to borrowed tools and training by master carpenters, electricians, and other experts would go a long way in helping them to repair and add on to their homes. The majority of respondents living in mobile homes would have liked loans to replace mobile homes with conventional homes.

**insurance.** Most indicated they could not qualify for property insurance and felt they could not afford it given their

extremely low incomes. However, many expressed the need for information about other types of insurance, including automobile, health, and life insurance.

**financial literacy and housing counseling.** Most respondents expressed the need for information on various aspects of money management and housing counseling. Most participants had not had the opportunity to receive such assistance. When asked how they preferred to learn, most agreed they would benefit from a small group setting since they could learn from other people's questions and experiences. However, they felt it was important to have access to individual assistance, if necessary, afterwards.

The El Paso Collaborative is developing the final version of the training manual, scheduled for distribution in late January 2004. Free print copies of the document will be made available to organizations serving the colonias, and it will also be available on the internet.

JoAnna Guillen is program manager at the El Paso Collaborative. She can be reached at 915-532-7788 and welcomes any inquiries regarding the draft training manual.

**FROM PAGE 15** Amidst NCALL's success, some concerns remain. First, the organization still has not been able to raise sufficient dollars to address the full demand in our service area. Second, bank mergers and acquisitions result in fewer potential funders and less grant money available. Efforts to serve the emerging Hispanic population in southern Delaware are showing progress, but also point to a general lack in the homebuying infrastructure of real estate agents, loan officers, home inspectors, and lawyers who speak Spanish. While we have been enjoying a steady period of low interest rates, housing advocates always worry about the impediments to affordability that rising rates would cause. Finally, along with many coun-

seling agencies, NCALL worries about new homeowners being hit by predatory lending tactics that could quickly strip away the precious benefits of homeownership.

The future seems likely to hold new challenges for NCALL's homeownership counseling services — the board of directors recently asked staff to look into piloting a post-purchase counseling initiative.



Debbie J. Andrews is housing counseling coordinator, and Joe L. Myer is executive director, at NCALL Research. More information about NCALL and its programs, including housing counseling, is available at [www.ncall.org](http://www.ncall.org) or at 302-678-9400.

# Rural Housing Funding Decided for 2003, Proposed for 2004

by Joe Belden

The winter and spring of 2003 are proving to be an active time for housing funding. On February 3 the Bush administration released a proposed federal budget for fiscal year 2004. The budget came under very unusual circumstances, occurring before Congress completed work on the budget for 2003. Final appropriations for fiscal 2003, which began October 1, 2002, were much delayed for a variety of reasons. After numerous continuing resolutions to keep most federal programs temporarily funded, Congress approved an omnibus 2003 budget on February 13, and President Bush signed it into law on February 20.

## FY 2004 BUDGET PROPOSALS

Proposed spending levels for the Department of Agriculture's Rural Housing Service and for the Department of Housing and Urban Development are good for some programs but grim for others. Overall there are probably fewer cuts in housing programs than some advocates might have feared.

Appropriations work is now well underway. At press time, HUD hearings have been held in both House and Senate and a USDA hearing has occurred in the House. Both the authorizing committees — Senate Banking and House Financial Services — have heard testimony from HUD Secretary Mel Martinez. In the House, USDA Under Secretary Thomas Dorr and RHS Administrator Arthur Garcia also testified.

**usda.** The administration's FY 2004 budget asks Congress to reduce the Rural Housing Service's Section 515 rental program to \$71 million. No new construction would be supported; funds would be available only for repairs and rehabs of current projects. Section 515 had \$114 million in 2002 and has \$116 million in 2003. In contrast, the budget also proposes a substantial increase in Section 502 direct homeownership loans, from \$1.04 billion in 2003 to \$1.366 billion in 2004. The farm labor housing program would be increased to \$59 million in grants and loans, and rental assistance would rise to \$740 million. As in the 2003 proposal, the USDA Rural Community Development Initiative would be eliminated. Section 523 technical assistance funds would receive a small

reduction to \$34 million.

**hud.** On the HUD front, the Administration's 2004 budget increases some programs but again seeks to eliminate the Office of Rural Housing and Economic Development. The biggest proposed change is to create a new HUD program called "Housing Assistance to Needy Families," which would replace most Section 8 housing vouchers with block grants to the states. Project-based Section 8 would continue to be administered by HUD.

The budget again strongly supports homeownership. As the administration proposed for 2003, the Self-Help Homeownership Opportunity Program would rise to \$65 million and HOME downpayment assistance would get \$200 million. The budget suggests a \$16 million Colonias Gateway Initiative and proposes increases in homeless aid and housing counseling. A new "Samaritan Housing" initiative would support successful local programs that move chronically homeless people to permanent housing. The public housing capital fund would be cut, and HOPE VI would be eliminated.

The HOPE VI elimination and the HANF block granting proposal have been getting the most attention so far, but some members of Congress have also quizzed HUD on why the RHED program is again proposed for zero funding. The Office of Management and Budget seems convinced that the program belongs at USDA, but Congress is highly unlikely to go along.

## FY 2003 APPROPRIATIONS


The long-delayed omnibus appropriations package for FY 2003 spending in most federal agencies included funding for USDA Rural Housing Service and HUD programs for the current year, which began October 1. Also included is an across-the-board cut of 0.65 percent in housing and most other domestic programs.

**usda.** Most of the RHS programs came through well, without any of the large reductions that had been proposed for some a year ago. Avoiding a drastic proposed cut to \$60 million, the Section 515 rental program won a small increase to \$116 million. But Section 502

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**FROM PAGE 23** direct homeownership loans were cut slightly to \$1.044 billion. Guaranteed 502 loans received a substantial boost to \$4.528 billion. Other higher funding levels compared to 2002 are in Section 504 repair loans, 521 rental assistance, 514/516 farm labor loans and grants, and Rural Housing Assistance Grants.

**hud.** The final omnibus appropriations bill also funds HUD for 2003. Most HUD programs received level funding or increases over 2002. Avoiding a proposed elimination, the Rural Housing and Economic Development program was funded at \$25 million. Some of the increases enacted are in the HOME program, homeless assistance, lead hazard control, and public housing operating funds. CDBG got a small reduction


overall but formula grants to cities and states were increased. SHOP received \$25.3 million, and the HOME downpayment assistance initiative got \$75 million. The administration's proposed Colonias Gateway was not funded. 

Joe Belden is deputy executive director of the Housing Assistance Council. The administration's budget documents are available at [www.whitehouse.gov/omb/budget/fy2004](http://www.whitehouse.gov/omb/budget/fy2004). HAC's review, *Something Old, Something New: An Analysis of the Administration's Proposed Fiscal Year 2004 Rural Housing Budget*, is available free at [www.ruralhome.org](http://www.ruralhome.org) or for \$4 (including postage and handling) from Luz Rosas, HAC, [luz@ruralhome.org](mailto:luz@ruralhome.org), 202-842-8600. The 2003 appropriations law, P.L. 108-7, and the accompanying legislative report, H.Rept. 108-10, are at [thomas.loc.gov/home/approp/app03.html](http://thomas.loc.gov/home/approp/app03.html).

**FROM PAGE 13** HUD have approved the VHDA curriculum and it has been widely adopted in the state as the accepted and preferred homeownership educational model. Since initial classes in 1993 attended by fewer than 200 people, participation has grown to almost 5,000 annually, with a total of over 30,000 people receiving instruction.

VHDA is also looking at ways it can offer homeownership education to meet individual needs without getting away from the value of in-person training in a classroom setting. Under consideration is an interactive computer-based application to instruct people not able to attend a class. VHDA also has developed videotaped modules for certain sections of the training that can be used if a trainer is not available to present it in person. At this point, there are no definitive plans to allow the entire course

to be offered this way because video cannot be interactive.

When the successful performance of a loan can be attributed at least in part to receiving quality homeownership education, there can be no doubt about the education's usefulness. The critical issues remain cost and availability. Rural Development in Virginia is still searching for the balance between providing classes itself that are tailored carefully for its clients, and encouraging others to become involved while still remaining true to its mission of financing quality affordable housing for low- to moderate-income rural residents. 

Philip H. Stetson is the director of single-family housing programs for USDA Rural Development in Virginia.





### THE REVEREND HARRY BOWIE

The Reverend Harry Bowie left New Jersey in summer 1964, expecting to spend one month in Mississippi as a civil rights organizer, and has been in Mississippi ever since. In 1974 he was nominated to represent the Southern Regional Council on HAC's board,

where he has been a consistent advocate for low-income residents of the Lower Mississippi Delta region.

Ordained in the Episcopal Church, Rev. Bowie serves as the minister to a Methodist church in Magnolia and, once a month, as the minister at an Episcopal Church in Jackson. He is also the Executive Director of the Delta Foundation, a community development corporation in Greenville, Miss.

Rev. Bowie finds HAC's work connects well with the Delta Foundation's. As he puts it, HAC is the premier organization working with less fortunate people in the area of rural housing, while the Delta Foundation is working on the same issue from the economic side. Over its more than 20 years in operation, the Foundation has developed businesses and made loans to other entrepreneurs, as well as financing some housing units. Rev. Bowie estimates it has been responsible for the creation of thousands of new jobs in an area where they are badly needed.



### JOSE TREVINO

Jose Trevino brings to HAC several decades of experience in the field of farmworker housing. When he first left his home town of Harlingen, Texas, Trevino traveled the Midwest as a migrant farmworker. Educating his children has always been high

on his priority list, so in 1960 he decided to settle permanently in Illinois. During the 1960s and 70s he was very politically active, marching with Cesar Chavez and Martin Luther King. He spend a year as a staff member of a migrant board training program at Shaw University in Raleigh, N.C. After training at the Catholic University in Washington, D.C., he received his certification as a Housing Specialist.

Trevino joined HAC's board in 1972 when he was director of housing for the Illinois Commission on Human Relations, a state agency responsible for enforcing anti-solicitation and anti-discrimination housing laws. Through Trevino's efforts, the commission later extended its work to include the development of new housing.

Trevino's farmworker housing career continued at Centro Campesino in Florida and at the Illinois Migrant Council until his retirement in 1998. He and his wife Lupe now divide their time between Illinois and Texas. They have 11 children, 15 grandchildren, and two great-grandchildren.

Trevino says that over the years he has been approached at housing conferences by people who, upon learning of his affiliation with HAC, are anxious to know more about its programs. He describes HAC as a well known and well respected organization, which he is proud to serve as a board member. Trevino also values the expertise and professionalism of the HAC staff.



### RURAL VOICES

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The Housing Assistance Council (HAC) is a national nonprofit corporation founded in 1971 and dedicated to increasing the availability of decent housing for low-income people in rural areas. HAC strives to accomplish its goals through providing loans, technical assistance, training, research and information to local producers of affordable rural housing. HAC maintains a revolving fund providing vital loans at below-market interest rates to rural housing developers. Developers can use these funds for site acquisition, development, rehabilitation or new construction of rural, low- and very low-income housing. HAC has a highly qualified staff of housing specialists who provide valuable technical assistance and training, and research and information associates who provide program and policy analysis and evaluation plus research and information services to public, nonprofit, and private organizations. HAC's subsidiary, Rural Housing Services, Inc. (RHS), syndicates rural housing developed with the Low Income Housing Tax Credit.

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