



The Honorable Maxine Waters  
Rayburn House Office Building, Rm: 2221  
Independence and S. Capitol St., S.W.  
Washington, DC 20515

The Honorable Patrick McHenry  
Rayburn House Office Building, Rm: 2004  
Independence and S. Capitol St., S.W.  
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The Honorable Lacy Clay  
Rayburn House Office Building, Rm: 2428  
Independence and S. Capitol St., S.W.  
Washington, DC 20515

The Honorable Sean Duffy  
Longworth House Office Building, Rm: 1714  
Independence and New Jersey Avenues, S.E.  
Washington, DC 20515

May 8, 2019

To the Honorable Chairwoman Waters, Honorable Ranking Member McHenry, Honorable Subcommittee Chairman Clay, and Honorable Subcommittee Ranking Member Duffy,

The United States needs an ambitious program to improve homeownership levels for people of color and for low and moderate income people. Homeownership is the most effective mechanism to build household wealth for most Americans. Homeownership for low and moderate income (LMI) households is not only the most valuable asset for the majority of low and moderate income families, but also represents a source of stability, pride, and community connection. However, many LMI households need additional resources to adequately navigate the U.S. Housing Market and resources associated with it. One avenue to ensure this is through housing counseling. Housing counseling is a cost-effective program that benefits homebuyers, homeowners, lenders, investors, state and local governments, and communities by supporting homebuyers preparing for sustainable homeownership, distressed homeowners needing affordable loan workouts (or graceful exits), senior citizens considering reverse mortgages, and consumers looking for financial management and credit assistance.

We propose three solutions to addressing and improving minority homeownership:

1. Housing Counseling as a vehicle for increasing homeownership
2. Incentives for mortgage applicants to use housing counseling services
3. Provide sustainable funding for housing counseling programs nationwide
4. Expand the Section 8 Voucher Program

**Recognize and Incorporate Housing Counseling as a Vehicle for Increasing Homeownership for Low and Moderate Income People and People of Color**

HUD approved housing counseling agencies are deeply engaged with LMI housing consumers and with people of color. In FY 2017, seventy four percent of housing counseling clients were people of color and seventy three percent were LMI households with incomes of 80% of median income or less.<sup>1</sup> Housing counseling agencies are a practical resource to be part of the solution to help underserved populations become homeowners.

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<sup>1</sup> HUD FY 2017 9902 Housing Counseling Data.



Research has demonstrated that loans made to borrowers who have received pre-purchase counseling perform better than loans made to comparable borrowers who did not receive pre-purchase counseling.<sup>2</sup> A 2013 study, looked at 75,000 mortgages and found that borrowers who received pre-purchase counseling and education were more than 30% less likely to become seriously delinquent than similar borrowers who did not receive pre-purchase counseling and education.<sup>3</sup>

The challenge is that that HUD approved housing counseling agencies are not widely known by the housing public and it is important to get underserved homebuyers engaged early, before major financial decisions are made, to help people become informed and successful homeowners. Public policy should encourage housing consumers to engage with HUD approved housing counseling agencies early in the process.

### **Incentivize Mortgage Applicants to Participate in Housing Counseling**

H.R. 2162 is a valuable step forward in increasing homebuyer participation in housing counseling services. NHRC recommends that the legislation only provides a discount to homebuyers who complete the housing counseling program prior to signing a mortgage application or a real estate sales agreement. When homebuyers sign a mortgage application and/or a sales agreement, they are locking in financial term. Homebuyers benefit greatly from completing housing counseling prior to making such commitments. A last minute visit to a housing counselor right before loan closing is the least useful time in the process for homebuyer and can amount to a token meeting rather than a productive engagement on the affordability and sustainability of homeownership.

Similarly, when homebuying incentives are provided by governments, such as downpayment assistance or other grants, there should be a requirement to complete a HUD-approved housing counseling agency program.

### **Provide Sustainable Funding for Housing Counseling Programs to Meet America's Housing Needs**

Despite the broad recognition of the value of housing counseling, federal support for housing counseling funding is declining: In FY 2010, HUD Housing Counseling Assistance was \$87.5 million. By FY 2018, it was down to \$55 million and in FY 2019 it dropped to \$50 million. In the final year of the NFMC foreclosure mitigation program, funding was \$40 million for FY 2016. The outcome of the funding decline is bleak: In 2014, there were 2,367 HUD approved housing counseling agencies across the United States. In five years, by 2019, there were 1,820 agencies, a loss of 547 agencies. In FY 2010, there were 3,026,137 counseling sessions, provided by housing counseling agencies. By FY 2017, counseling sessions were down to 1,121,957, a decline of 63%.<sup>4</sup>

The solution to reestablishing pipelines to services would be to increase funding for the HUD Housing Counseling Assistance program. For FY2020, advocates are asking for an increase to \$65 million. Another action would be to fund the housing counseling services delivered to FHA insured mortgage applicants through the FHA Mutual Mortgage Insurance Fund. Pre-purchase and post purchase housing counseling

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<sup>2</sup> See, e.g., Neil S. Mayer & Kenneth Temkin, *Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks America's Experience* (p. iii) (March 7, 2013); Marvin M. Smith et al., *The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills* (April 2014).

<sup>3</sup> Mayer & Temkin, *supra* note 2.

<sup>4</sup> HUD 9902 Reports.



can reduce losses for the fund and make the investment in housing counseling a positive contribution to the Fund.

### **Expand the Section 8 Homeownership Voucher Program**

The homeownership rate for white households in 2016 was 71.3%, while African American homeownership rate was 41.6% and the Latino rate was 45.6%.<sup>5</sup> To address the homeownership gap, housing policy must address housing affordability in many housing markets.

Providing downpayment assistance (coupled with a housing counseling requirement) and subsidizing the construction of new housing are necessary. People of color and lower income people coming from lower wealth communities will need additional market and government supports in order to close the gap and ensure economic mobility in the coming generations.

Funding for the Section 8 Homeownership Voucher must be increased. The program successfully provides income-qualified families who have completed the Family Self Sufficiency program and housing counseling programs, with monthly assistance that goes towards a portion of their homeownership payment.

Coupled with increased funding for the Section 8 homeownership program, the lack of adequate public housing authorities participating in the program must be addressed. Currently, a little more than 800 public housing authorities oversee the Section 8 Homeownership program, despite there being more than 3,400 existing public housing authorities across the United States. This is just under a quarter of the authorities. Having more authorities participate would allow authorities to administer the program more efficiently.

NHRC thanks the Financial Services Committee for renewing national attention to the area of housing in this country and we look forward to working closely with the Committee to bringing housing counseling to the forefront of this much needed conversation.

Sincerely,

A handwritten signature in black ink that reads "Bruce L. Dorpalen". The signature is written in a cursive style.

Bruce L. Dorpalen

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<sup>5</sup> American Community Survey, <https://www.urban.org/urban-wire/closer-look-fifteen-year-drop-black-homeownership>