



July 10, 2017

Jim Gray
Duty to Serve Program Manager
Federal Housing Finance Agency

RE: Comment on Proposed Fannie Mae and Freddie Mac Underserved Markets Plans

Dear Jim:

I commend FHFA and the Enterprises for the development of plans to fulfill Duty to Serve (DTS) obligations in underserved markets. My comments reflect my personal perspective gained from service as a leader at the Homeownership Preservation Foundation (HPF) during the housing crisis and over 30 years in senior roles in US housing, investment and consumer finance. HPF supports the broad goals of the respective plans and looks forward to working with the Enterprises to achieve them. HPF's primary focus is to deliver high-quality housing counseling-related support to new homebuyers and at-risk homeowners as a national scale enterprise. Many of the underserved markets addressed in DTS plans are lacking in resources designed to support the financial capability of residents. An investment in human capital in those areas would support the return on investment capital driven by DTS initiatives.

HPF is proud of its service to the nation, including many remote and underserved communities, in concert with our network partners, the US government and the Enterprises. We have responded to the needs of nine million at-risk homeowners through our Homeowner's HOPE Hotline and we continue to serve those in need every day. We are in process of leveraging the insights gained from our experience to empower consumers to achieve their housing and financial goals. My comments will encourage the inclusion of robust borrower engagement and assistance services in the execution of DTS goals.

Value proposition and recommendations

In reviewing the lessons learned from the housing crisis, [the Bipartisan Policy Center's Housing Commission](#) noted that homeownership can "produce powerful economic, social, and civic benefits that serve the individual homeowner, the larger community,

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and the nation, adding “that housing counseling and education must be a central component of any strategy to expand homeownership opportunities . . .”¹

Opportunities for sustainable homeownership will be advanced by deploying nonprofit, HUD-approved housing counselors in a coordinated effort to help potential homebuyers meet the promise of responsible and sustainable homeownership. Assuring the availability of housing counselors for this effort will require the integration of housing counseling in initiatives designed to empower homeowner (and renter) success; thus producing demonstrable economic benefits for all stakeholders in the housing finance system: consumers, lenders, investors, servicers and the Enterprises.

There are two primary forms of homeownership education and counseling relevant to successful homeownership: pre-purchase education and counseling and mortgage delinquency (or foreclosure avoidance) counseling. Numerous research studies have documented the benefits of both forms in helping nurture and reinforce the performance of successful homeowners.

One of the most prominent studies of mortgage delinquency counseling is included in the reports to Congress regarding the performance of the National Foreclosure Mitigation Counseling (NFMC) Program.² Mortgage delinquency counseling has shown to be very valuable in loss mitigation and the lessons that we have learned in the process are directly applicable to the development of successful homebuyers, which is the primary focus of pre-purchase counseling.

The DTS initiatives will benefit from the integration and expansion of the availability and application of pre-purchase counseling that is focused on helping prospective homebuyers (with credit challenges) improve their credit scores, debt utilization practices and budget management skills: all important components of homeownership success.

In the aftermath of the housing crisis, the upward migration in credit scores has become a more significant barrier to the ability of lower income and minority homebuyers to

¹ <http://bipartisanpolicy.org/library/housing-americas-future-new-directions-national-policy/>

² http://www.neighborworks.org/Documents/HomeandFinance_Docs/Foreclosure_Docs/NFMC_Docs/Congressional-Repts/2016-NFMCCongressionalReport12.aspx

access mortgage credit. A paper by Jim Parrott and Mark Zandi noted that “the dependence on high credit scores excludes many capable homebuyers who would have qualified for access to credit in more normal, pre-bubble periods.³ Evidence suggests that pre-purchase housing counseling would facilitate improvements in client credit scores prior to application and/or reduce delinquency rates so that loan performance is equivalent to a higher credit score. Improvement in pre-application scores would help a considerable number of households become eligible for affordable mortgage credit.

A study conducted by the Philadelphia Federal Reserve Bank shows that housing counseling contributes to credit score improvement. Study participants that had received pre-purchase counseling showed significant improvement in credit scores (of over 16 points) and reductions in debt balances over a multi-year period.⁴ Preliminary findings of an ongoing HUD study echo these results, showing that participants were more likely to achieve credit scores above 620, which is a proxy for the minimum credit score needed to qualify for a conventional mortgage.⁵

A study by Freddie Mac showed that “pre-purchase financial counseling may reduce, by an average of 29 percent, the likelihood of a first-time homebuyer becoming seriously delinquent.”⁶ A Freddie Mac official goes on to state, “The bottom line: pre-purchase financial counseling is a smart move for first-time homebuyers and the industry that finances their mortgages.”

A particularly relevant study by Collins, et. Al., suggested that “frequent monitoring and engagement with first-time homebuyers can have significant impact on borrower repayment patterns.”⁷ This intervention associates with reduced mortgage default rates for borrowers with subprime credit scores. The authors note that “to the extent that

³ Parrott, Jim and Zandi, Mark. (September, 2013.) *Opening the Credit Box*, Moody’s Analytics and Urban Institute. Washington, DC

⁴ Marvin M. Smith, Daniel Hochberg, Daniel and William H. Green. April 2014. *The Effectiveness of Pre-purchase Homeownership Counseling and Financial Management Skills*. Federal Reserve Bank of Philadelphia. <https://www.philadelphiafed.org/community-development/homeownership-counseling-study>

⁵ <https://www.huduser.gov/portal/publications/first-homebuyer-early-insights.html>

⁶ Avila, G., Nguyen, H., & Zorn, P., (April 2013). *The Benefits of Pre-Purchase Homeownership Counseling: Working Paper*. McLean, VA: Freddie Mac.

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J. Michael Collins, Loibl Cazilia, Stephanie Moulton & Anya Samak. April, 2013. *Effects of Monitoring on Mortgage Delinquency: Evidence from a Randomized Field Study*. Financial Literacy Research Consortium.

low-cost interventions can be integrated into credit markets, default risks may be reduced to levels comparable to higher credit score borrowers. Attention-focusing mechanisms appear to have the potential to enhance credit markets through the use of technology and the application of recent insights from the behavioral economics and consumer decision-making literature.”

More recently, Wei Li, et. al., at the Urban Institute found that participants in Homeownership Education and Counseling offered through NeighborWorks America’s affiliates demonstrated 90 day delinquency rates 16 percent lower than non-participants.⁸ The NeighborWorks’ clients included in the study were disproportionately disadvantaged compared with general home purchase applicants.

Brett Theodos and Ellen Seidman, also at the Urban Institute, suggest that the benefits of housing counseling extend beyond the purchase of a home: “counseling and coaching for homeownership can improve a family’s **entire financial health**, even if it never leads to homeownership.”⁹ They summarize the impact of including housing counseling in a broader financial-health strategy:

Families who receive housing counseling are more likely to sustain homeownership. These families develop the skills to manage their finances, including building a financial cushion on top of a down payment.

Counseling can help individuals and families who may be less ready to buy a home in the near term but could purchase within a reasonable period of time.

Counseling can teach families about all their options, rather than driving them toward homeownership because they don’t see any alternatives. While homeownership done right has been a major source of wealth, especially for middle- and working-class and minority families, it is not the only way to build assets.

I present these findings to affirm the value proposition of housing counseling. I should note and commend the Enterprises for recognizing the value of homeownership education and counseling in the origination process for affordable loan products, as well as in loss mitigation. I encourage the Enterprises to continue to design, test, learn

⁸ <http://www.urban.org/research/publication/neighborworks-americas-homeownership-education-and-counseling-who-receives-it-and-it-effective>

⁹ <http://www.urban.org/urban-wire/housing-counseling-should-help-more-just-homebuying>

and invest in the development of interventions that are effective in empowering consumers to achieve their housing goals, which will reinforce achievement of DTS goals.

Recommendations:

1. Establish a consumer engagement and empowerment DTS task force to design, test and analyze interventions for efficiency and effectiveness. Include representatives from HUD approved housing counseling nonprofits and others with an orientation to and experience in consumer behavioral research.
2. Extend and refine existing incentives (such as in Fannie Mae's Home Ready program) that encourage lenders to provide, and consumers to adopt, pre-purchase and post-purchase counseling.
3. Track and report on the impact of housing counseling interventions on the performance of recipients compared with those that do not take advantage of it so that intervention methodologies can be calibrated and refined.

Thank you for the opportunity to comment.

Respectfully,

Gene A. Spencer
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