



The Federal Reserve Bank of Richmond

The Relevancy of Housing Counseling After the Housing Market Crisis

The housing counseling industry has grown significantly over the last two decades.¹ In 1994, around 244,000 people received individual counseling through roughly 600 housing counseling agencies approved by the U.S. Department of Housing and Urban Development (HUD).² Today, 1.6 million individuals are receiving individual or group counseling from over 1,800 HUD-approved agencies.³ The growth in agencies and clients is attributed to an increase in HUD funding for housing counseling from \$3.5 million in the 1980s to nearly \$42 million by 2007. But the current economic and housing market crisis has changed the landscape for housing counselors. The number of rental households increased in the second half of the last decade while the homeownership rate fell from 69 percent in 2004 to below 67 percent in 2010.⁴ The decline in homeownership is likely to continue for many reasons, including financing challenges and changing preferences. According to a recent Pew Research Center survey, the percentage of Americans who strongly agree that “buying a home is the best long-term investment a person can make” declined from 49 percent in 1991 to 37 percent in 2011.⁵ This issue of Marketwise Community explores the evolution of housing counseling agencies to meet the changing needs of their clients and their ability to remain relevant in today’s economic climate.

Spotlight on Virginia Housing Development Authority

Started in 1972, Virginia Housing Development Authority (VHDA) is a nonprofit organization whose goal is to assist Virginia residents in obtaining quality, affordable housing. It acts as a parent organization for a number of HUD-approved housing counseling agencies in Virginia and passes funding awards from HUD to them. It also assists these agencies in completing HUD grant applications and HUD reporting requirements. Twenty-three grantees representing an estimated 48 counselors received their HUD funding through VHDA in 2011. The grantees range from the Blue Ridge Housing Network in Winchester to the Suffolk Redevelopment and Housing Authority.

While VHDA is listed as a HUD-approved housing counseling agency, it does not directly counsel housing clients. Instead, it trains new and experienced housing counselors. Prior to the foreclosure crisis, VHDA’s counselor training focused on pre-purchase clients. In response to the foreclosure crisis, VHDA initiated “back-end” training for counselors, so that they were equipped to offer counseling on foreclosure prevention and loss mitigation. VHDA staff members were trained and certified by NeighborWorks America. Upon receiving certification, they began offering the training in Richmond and subsequently in Herndon,

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A CHANGING FOCUS

Until the mid-1990s, housing counseling services targeted renters rather than homebuyers. In 1994, nearly half of the 244,000 individuals who received counseling were renters.⁶ Only 10 percent were so called “pre-purchase” home buying clients.⁷ Counselors provided renters with assistance in obtaining affordable rental housing, managing household budgets and rent subsidies, and resolving landlord-tenant disputes.

The early-1990s also saw the introduction of new tools and greater resources targeted on housing, particularly affordable housing.⁸ This was a reversal in the trend from the 1980s, during which federal support for affordable housing had declined. For example, HOPE VI — a program that has been used to improve the quality of public housing — was one of the HUD programs created in the 1990s. Housing counseling went hand-in-hand with many of these programs, and government agencies and lenders often required or strongly encouraged prospective borrowers to get assistance from a housing counselor. By 2004, while rental counseling continued to be the most popular request for services, pre-purchase homeownership counseling accounted for nearly a third of the clients.⁹

At the same time, new mortgage products were gaining traction. By 2006, subprime lending accounted for one-fifth of mortgage originations.¹⁰ There was also an uptick in the number of elderly homeowners exploring reverse mortgages as seniors looked to pay for expenses such as repairs or medical bills without having to sell their homes outright. These forces combined to reverse the trend in pre-purchase counseling while expanding “post-purchase” homeownership counseling for delinquent homebuyers and homeowners looking to refinance or obtain reverse

Norfolk and Roanoke. As a result, training attendees were spared the expense of traveling to the different cities across the U.S. where NeighborWorks offers classes. Scholarships were also offered to those attendees who needed overnight accommodations.

VHDA kicked off its Foreclosure Prevention Certification program in March 2008. The curriculum covers: the role of the housing counselor; steps in the foreclosure counseling process; workout options for government-backed and conventional loans; elements of a loan workout package; working with loan servicers; recognizing signs of predatory mortgage loans; foreclosure scams; and case studies. The certification program is no longer conducted with NeighborWorks; instead, it is an official part of VHDA’s training curriculum. As of November 2011, 317 individuals have successfully passed the certification exam.

VHDA has also been involved in distributing counseling funding for programs besides HUD, such as the National Foreclosure Mitigation Counseling Program, the Emergency Home Loan Program and its own REACH (Resources Enabling Affordable Community Housing in Virginia) programs. Through these efforts, in 2011, VHDA worked with 42 grantees representing an estimated 99 counselors across Virginia.

Sources:

“HUD Approved Housing Counseling Agencies, Agencies Located in Virginia,” U.S. Department of Housing and Urban Development, accessed November 29, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm?&webListAction=search&searchstate=VA>.

Virginia Housing Development Authority, “Foreclosure Counselor Training Initiative,” accessed November 10, 2011, <http://www.ncsha.org/system/files/Virginia-Special-Achievement+Desc.pdf>.



mortgages. By 2007, post-purchase counseling accounted for the largest share of housing counseling clients.¹¹

As the housing crisis unfolded, the federal government stepped up to provide core support for foreclosure counseling. In December 2007, Congress created the National Foreclosure Mitigation Counseling (NFMC) Program and appropriated \$180 million to be distributed via NeighborWorks America to counseling agencies experienced in foreclosure intervention and loss mitigation counseling.¹² The funds were considered a one-time appropriation to support a rapid but short-term expansion of foreclosure intervention counseling by HUD-approved housing counseling agencies and State Housing

NeighborWorks America

In 1978, Congress established the nonprofit NeighborWorks America (originally called the Neighborhood Reinvestment Corporation) to create “opportunities for people to live in affordable homes, improve their lives and strengthen their communities.” As part of this mission, NeighborWorks offers training to community development and affordable housing professionals, including housing counselors.

The NeighborWorks Center for Homeownership Education and Counseling (NCHCEC) worked with housing industry partners to develop the National Industry Standards for Homeownership Education and Counseling. NCHCEC offers training and certification to practitioners as well as tools and resources for counselors and homebuyers. In 2010, NCHCEC worked with more than 1,300 local and national foreclosure intervention counseling agencies.

Source: “NeighborWorks America,” NeighborWorks America, accessed November 10, 2011, <http://www.nw.org/network/index.asp>.

Finance Agencies. To meet the demand caused by widespread defaults, NeighborWorks was awarded a total of \$540 million through an additional five rounds of NFMC funding.¹³

COUNSELING STRATEGIES FOR TODAY’S NEEDS

By the time the foreclosure crisis hit, the housing counseling industry already had experience in adapting to the changing needs of its clientele. Today’s housing counseling agencies provide assistance to a variety of households: renters hoping to become homeowners, homeowners trying to avoid foreclosure and the homeless searching for housing options.¹⁴ The foreclosure crisis and the programs created in its wake resulted in new demands on housing counselors. They often play a central role in helping homeowners facing foreclosure navigate the mortgage loan modification process.

One of the programs in which housing counselors have played a key role navigating is the Home Affordable Modification Program (HAMP). HAMP is the centerpiece of the federal government’s Making Home Affordable initiative to assist homeowners facing foreclosure.¹⁵ The main element of HAMP is the provision of incentives to servicers, investors and borrowers to modify loans at risk of default. A participating servicer agrees not to proceed with a foreclosure until the borrower’s eligibility for HAMP has been evaluated and a trial modification offer has been made.¹⁶ Counseling is a requisite for borrowers whose monthly debt payments are at or above 55 percent of their gross monthly income.¹⁷ These borrowers are required to work with a HUD-approved housing counselor on a plan to bring their debt payments below this threshold.¹⁸

One of the most common challenges homeowners and housing counselors face in



the modification process is loss of paperwork by the lending agencies. Ruth Griffin, executive director of the Maryland Housing Counselors Network, has found that loan modification materials have to be submitted repeatedly by housing counselors — often more than 20 times — before they are acknowledged as received.¹⁹ She describes many instances in which fax numbers and loss mitigation personnel change midprocess, time-sensitive documents are deemed expired and then the faxing begins anew. Griffin contrasts this experience with that of a counselor assisting a prospective homebuyer. In the latter case, materials are seldom misplaced; there is a process for managing the flow of documents; and one loan officer manages the application throughout the process. In the foreclosure process, stress for the homeowner is compounded by the fact that the loan servicer may proceed to foreclosure despite the pending modification application. “The workout is the one thing that is not in the counselor’s control, and the loss mitigation piece still remains one of the biggest challenges we face,” says Griffin.

Housing counselors have adopted several important strategies to help homeowners through the delinquency process. Key among these is making use of mediation policies that encourage, and in some cases require, lenders to meet with homeowners before a foreclosure can be executed.²⁰ For example, Maryland’s Foreclosure Mediation Law, which became effective July 1, 2010, requires a meeting of the homeowner, lender or servicer, and an independent third party, where alternatives to foreclosure are considered and evaluated.²¹ While mediation is a legal proceeding, counselors can help prepare homeowners to organize and present their cases and weigh various outcomes.

Another strategy that counselors use in the modification process is “escalation.” The goal of escalation is to strengthen communication between housing counselors and lenders or servicers. Used by the Center for New York City Neighborhoods (CNYCN), whose escalation program has become a national model for foreclosure counseling, this strategy asks lenders or servicers to designate an individual or unit to whom communication can be directed if customary communication methods fail. This strategy can be used, for instance, if a servicer says that a homeowner does not qualify for a certain type of loan modification for which a counselor believes they are eligible.

Housing counselors are also using innovative techniques to reach and assist more homeowners. For example, Washington’s Capital Area Foreclosure Network (CAFN) has created a regional foreclosure hotline — (888)794-8830 — whose bilingual operators give callers basic information on foreclosures, scams and advice on working with servicers, as well as referrals to those who can offer more in-depth aid. In addition, CAFN launched a text messaging campaign in early 2011 to reach troubled homeowners.

“After redesigning our web tools to address homeowners and renters, we found that there is a greater response to text messaging. Different people access media in different ways and because cell phone penetration is high and reaches across socioeconomic lines, the technique has a great deal of promise and potential in reinforcing our message,” said CAFN’s Director Peggy Sand.²²

CAFN was established in April 2010 to address the foreclosure crisis in the Washington, D.C., region. The 35 members in its network represent a range of organizations in Virginia, Maryland and Washington, D.C.,



from government agencies, to counseling organizations, to advocacy groups, to financial institutions. Through the hotlines and multi-media campaigns, housing counseling agencies throughout the U.S. have been able to connect a larger number of distressed homeowners with the services housing counselors are equipped to provide. Increasing awareness of housing counselors' services has also helped to combat scams that target those at risk of foreclosure as part of a broad strategy to provide information to homeowners. For example, Maryland's Department of Housing and Community Development has sponsored the Maryland HOPE Hotline, a state-specific hotline.²³ The hotline complements the state's *Mortgage Late, Don't Wait* public campaign, which uses brochures, billboards, bus signs, ads in movie theatres, and radio and television spots to educate the public about foreclosure prevention assistance and scams.

COUNSELING BEYOND THE CRISIS

Looking beyond the foreclosure crisis, many housing counseling agencies and networks are recognizing the need to broaden counseling beyond emergency foreclosure prevention to broad-based financial literacy education. In this context, foreclosure prevention counseling is becoming part of a broader package to offer important consumer protection and financial management information to households. Having helped their clients navigate through the foreclosure crisis, housing counselors recognize the need to help them rebuild their credit and chart a path to long-term financial stability.

An innovative example of this new orientation is the Housing Initiative Partnership, Inc. (HIP), a housing counseling agency serving Montgomery and Prince George's counties in Maryland. In February 2011, they began to offer The Bounce Back Program, a financial education course designed to help

homeowners who have recently received permanent mortgage modifications sustain their mortgages and improve their financial health.²⁴ This program offers homeowners wide-ranging but practical and interactive education intended to address many consumer decisions. For example, participants meet with home improvement contractors who answer basic home repair questions; insurance agents who offer advice on appropriate home and other insurance policies; and tax and budgeting experts who can help participants prioritize their spending.

At a time when the housing landscape has changed tremendously, housing counselors have proven to be a consistent voice for a wide variety of low- and moderate-income households. The next step for the industry is to develop a national voice for itself. To this end, the National Housing Counseling Action Network (NHCAN) was launched in July 2011. Founding members range from national organizations, including the National Council of La Raza and the Rural Community Assistance Corporation, to state and local groups, including the Maryland Housing Counselors Network and the Center for New York City Neighborhoods.

"In the past, we haven't spoken up loudly, or really explained who we are ... but convening serves as the starting point where we come together and endorse our shared principles. We need to work together to be a larger voice for housing counseling and the people we work for," said Jennifer Murphy of the Center for New York City Neighborhoods.²⁵ CAFN's Peggy Sand was among the first to join the new network: "I see the industry coming into its own and a national network can only continue to help educate people about housing counseling and its importance as a valuable resource."²⁶



Housing counselors seem poised to continue to adapt their services to current trends in homeownership and retain their relevancy. Financial education and rental counseling will be a greater focus in the years ahead. Insufficient funding, however, is the industry's greatest challenge and the outlook is uncertain. Despite the surge in demand for post-purchase counseling, the U.S. Department of Housing and Urban Development (HUD) appropriations for housing counseling remained essentially flat between 2003 and 2007.²⁷ In April 2011, the continuing resolution passed by Congress for the 2011 fiscal year budget eliminated \$88 million in funding for

HUD-approved nonprofit counseling groups. In November, Congress restored \$40 million for the 2012 fiscal year.²⁸

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Resources

For additional information on the organizations mentioned in the article, please visit their websites:

U.S. Department of Housing
and Urban Development
www.hud.gov

Virginia Housing Development Authority
www.vhda.com

Blue Ridge Housing Network
www.brhn.net

Suffolk Redevelopment and Housing Authority
www.suffolkrha.org

National Foreclosure Mitigation Counseling
www.nw.org/nfmc

Neighborworks America
www.nw.org

Maryland Housing Counselors Network
www.TheNetworkMaryland.org

Center for New York City Neighborhoods
www.cnycn.org

Capital Area Foreclosure Network
www.capitalareaforeclosurenetwork.org

Maryland HOPE Initiative
www.mdhope.org

Housing Initiative Partnership
www.hiphomes.org

National Council of La Raza
www.nclr.org

Rural Community Assistance Corporation
www.rcac.org



Endnotes:

- ¹ The U.S. Department of Housing and Urban Development (HUD) certifies housing counseling agencies and defines them as organizations that provide “counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and home buying.” “Glossary,” U.S. Department of Housing and Urban Development, accessed September 23, 2011, <http://portal.hud.gov/jamwiki/en/Glossary>.
- ² The data on the number of agencies is from 1992 because data was not available for 1994. See U.S. Department of Housing and Urban Development, Office of Policy Development and Research, The State of the Housing Counseling Industry, last modified September 2008, accessed November 7, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hudhcrpt121508.pdf>.
- ³ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, The State of the Housing Counseling Industry, last modified September 2008, accessed November 7, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hudhcrpt121508.pdf> and U. S. Department of Housing and Urban Development, Cumulative Totals, accessed November 10, 2011, <http://portal.hud.gov/hudportal/documents/huddoc?id=2011Q39902090911.pdf>.
- ⁴ From 2006, the number of renter households increased by an average of 692,000 annually, reaching 37 million in 2010. Joint Center for Housing Studies, The State of the Nation’s Housing 2011, last modified June 6, 2011, accessed December 28, 2011, <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2011.pdf>.
- ⁵ Pew Research Center, Five Years After the Bubble Burst: Home Sweet Home. Still, last modified April 12, 2011, accessed November 7, 2011, <http://www.pewsocialtrends.org/files/2011/04/Housing-Economy.pdf>.
- ⁶ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, The State of the Housing Counseling Industry, last modified September 2008, accessed November 7, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hudhcrpt121508.pdf>.
- ⁷ Ibid.
- ⁸ David J. Erickson, The Housing Policy Revolution: Networks and Neighborhoods. (Washington, DC: The Urban Institute Press, 2009).
- ⁹ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, The State of the Housing Counseling Industry, last modified September 2008, accessed November 7, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hudhcrpt121508.pdf>.
- ¹⁰ Federal Reserve Bank of Philadelphia, FHA Lending Activity in the Past Decade: A National Overview, accessed October 31, 2011, <http://www.philadelphiafed.org/community-development/publications/special-reports/fha-lending-activity/variations-in-fha-lending.cfm>.
- ¹¹ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, The State of the Housing Counseling Industry, last modified September 2008, accessed November 7, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hudhcrpt121508.pdf>.
- ¹² “Final Funding Announcement,” Press Release (Washington, DC: National Foreclosure Mitigation Counseling Program, January 25, 2008).
- ¹³ NeighborWorks America, National Foreclosure Mitigation Counseling Program Congressional Update, accessed September 13, 2011, <http://www.nw.org/network/nfmcpc/documents/2011CongressionalReport.pdf>.
- ¹⁴ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, The State of the Housing Counseling Industry, last modified September 2008, accessed November 7, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hudhcrpt121508.pdf>.
- ¹⁵ MHA is an initiative of the U.S. Departments of the Treasury and Housing and Urban Development.
- ¹⁶ “Making Home Affordable Program and Home Affordable Modification Program: Frequently Asked Questions for Bankruptcy Filers,” last modified September 16, 2010, accessed December 28, 2011, <https://www.hmpadmin.com/portal/resources/docs/counselor/faqs/hampbankruptcyfaqseenglish.pdf>.
- ¹⁷ Making Home Affordable.gov, Homeowner Frequently Asked Questions, accessed November 28, 2011, <http://www.makinghomeaffordable.gov/faqs/homeowner-faqs/Pages/default.aspx>.
- ¹⁸ “Making Home Affordable Program Handbook for Servicers of Non-GSE Mortgages,” Version 2.0, last modified September 22, 2010, accessed December 28,



- 2011, https://www.hmpadmin.com//portal/programs/docs/hamp_servicer/mhahandbook_20.pdf.
- ¹⁹ Ruth Griffin, interview by Karron Minor, Baltimore, MD, June 23, 2011.
- ²⁰ "Foreclosure Mediation Programs by State," National Consumer Law Center, accessed September 27, 2011, <http://www.nclc.org/issues/foreclosure-mediation-programs-by-state.html>. <http://www.nclc.org/issues/foreclosure-mediation-programs-by-state.html>.
- ²¹ Foreclosure Mediation Law, HB 472, Maryland State Legislature (2010), accessed on December 28, 2011, <http://mlis.state.md.us/2010rs/bills/hb/hb0472e.pdf>.
- ²² Peggy Sand, interview by Karron Minor, Baltimore, MD, June 20, 2011.
- ²³ "Maryland Housing Counseling Fund Distributes \$1.9 Million to 35 Agencies," Press Release (Crownsville, MD: Maryland Department of Housing and Community Development, October 5, 2010).
- ²⁴ "Bounce Back Program," Housing Initiative Partnership, accessed September 23, 2011, http://hiphomes.org/wp/?page_id=872.
- ²⁵ Jennifer Murphy, interview by Karron Minor, Baltimore, MD, June 17, 2011.
- ²⁶ Peggy Sand, interview by Karron Minor, Baltimore, MD, June 20, 2011.
- ²⁷ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, The State of the Housing Counseling Industry, last modified September 2008, accessed November 7, 2011, <http://www.hud.gov/offices/hsg/sfh/hcc/hudhcrpt121508.pdf>.
- ²⁸ "HUD to grant \$40 million in restored housing counselor funds," Housing Wire, accessed December 2, 2011, <http://www.housingwire.com/2011/12/01/hud-to-grant-40-million-in-restored-housing-counselor-funds-2>.

