

National Foreclosure Prevention and Neighborhood Stabilization Task Force

July 14, 2014

Commissioner Carol Galante
c/o Office of General Counsel
Regulations Division
Department of Housing and Urban Development
451 7th Street SW., Room 10276
Washington, DC 20410-0001

Re: FR-5786-N-01 Homeowners Armed With Knowledge for New Homebuyers

Dear Commissioner Galante:

We, the undersigned members of the National Foreclosure Prevention and Neighborhood Stabilization Task Force, thank you and your staff for all of the hard work you have done to create the Homeowners Armed With Knowledge (HAWK) program. By recognizing the value of housing counseling in achieving better outcomes for homebuyers, lenders, and communities, HAWK formalizes lessons learned on the ground during the housing crisis. Furthermore, by better integrating housing counseling into the mortgage process and attaching it to financial incentives, HAWK will make it easier for more people to benefit from housing counseling. We thank you for your efforts and offer some comments and suggestions for improvements to the proposed program.

About the Task Force

Convened in November 2007, the National Foreclosure Prevention and Neighborhood Stabilization Task Force is a cross-industry group of local and national organizations working to address the impacts of the foreclosure crisis on communities. Our mission is to bring together advocates, practitioners, and other experts from across the country around foreclosure prevention and neighborhood stabilization efforts, to exchange critical information and to help craft policy, legislative, and programmatic initiatives that primarily support low and moderate-income individuals and families.

1. Housing counseling benefits households, lenders, and communities

The foreclosure crisis has shown all too powerfully how **housing counseling provides a stabilizing influence for homeowners, renters, and hard hit communities**. Much research and attention focuses on post-purchase counseling as a means to prevent foreclosure: helping borrowers who have missed payments get back up-to-date or those who are in default lower monthly payments and avoid foreclosure. Research has shown that housing counseling before purchase can avoid later mortgage delinquency by helping borrowers avoid risky loans and determine their readiness for homeownership.¹ Housing counseling is also an important resource for individuals seeking affordable rental options and

¹ Williams, Laura, "The Role of Housing Counseling in Reducing Mortgage Delinquency," Center for Housing Policy, June 2011, http://www.nhc.org/media/files/Role_of_Housing_Counseling_in_Preventing_Foreclosure.pdf

for assisting the homeless in finding shelter. We commend HUD for recognizing the immense benefits of housing counseling and appreciate your acknowledgment of the skill and knowledge that counselors bring to their work.

When borrowers remain current, cure loan delinquency, or avoid foreclosure, lenders and servicers benefit, too. Delinquency and special servicing are costly for all involved, and foreclosure typically returns much less than the par value of a loan. Small investments in housing counseling up front can, in effect, be good business.

Avoiding foreclosure and sustaining homeownership have benefits not only for individual households and lenders but also for surrounding neighborhoods. Even now, communities nationwide struggle to break the cycle of disinvestment created by waves of foreclosure. **Making housing counseling more widely used and better integrated into the homebuying process is one of many necessary steps to avert a repeat of the foreclosure crisis.** By including pre-purchase, pre-closing, and post-closing counseling, the proposed HAWK program maximizes the benefits throughout the homebuying process.

2. We should fund housing counseling as part of the normal business of home purchase

For housing counseling to be successful, housing counselors must have reliable sources of funds to support their work. We endorse the statement in the proposed HAWK pilot that all **“the parties that benefit from the HAWK Pilot should contribute to the cost of housing counseling and education.”** Housing counseling agencies cannot serve all those in need or achieve the needed scale by relying solely on Congressionally-appropriated funds. Although the pilot addresses reasonable fee levels and the mechanics by which borrowers can receive the promised financial incentives once counseling is complete, it spends much less time describing how other sources of funds can support the necessary work of housing counseling. Having **housing counseling listed as one of the costs paid at closing** is an important first step, one that Task Force members have found helpful when implemented at the state and local level.

We encourage HUD to develop the process more clearly to address the cross-cutting challenges of funding housing counseling, including:

- **Listed costs are too easily passed directly to borrowers.** As a matter of course in most home loan closings, individual costs are identified as line items and settled along with the loan—in effect, rolling them into the total cost paid by the borrower. Itemization in this fashion provides useful clarity to all involved, but it should not provide simply a pass-through to borrowers, who by design of the program will be of low or moderate income.
- **Housing counselors must be independent advisors to borrowers.** Payment for housing counseling must therefore avoid creating conflicts of interest. Too-direct referral or payment mechanisms risks creating confusion for counselors, who must be free to advise potential homebuyers without fearing for future business prospects or fee revenue.
- **Perceived costs could deter participation.** If borrowers see a large line item added to their closing statement, it may deter them from participating in the pilot, even if it would be in their long-term best interests. Borrowers should pay some but not all of the costs and be able to see that they are doing so.

Having participating lenders contribute to a HUD-administered fund to reimburse participating housing counselors might address some of these challenges, especially if the fund's contribution toward the cost of housing counseling appeared as a credit next to the cost on the closing statement. Other solutions are certainly possible, and we encourage HUD to explore them and specify mechanisms more clearly before rolling out the program.

In conclusion, we again thank all those who worked to move this housing counseling initiative forward, and we stand ready to assist with further development of the program. For questions on any of the points raised here, please contact Ethan Handelman, Vice President for Policy and Advocacy, National Housing Conference, ehandelman@nhc.org, 202-466-2121 x238.

Sincerely,

The undersigned organizations of the National Foreclosure Prevention and Neighborhood Stabilization Task Force:

Affordable Homes of South Texas, Inc.
Consumer Federation of America
Enterprise Community Partners
Home Ownership Mortgage Education (HOME)
Homeport
Housing Assistance Council
Kingdom Community Inc.
Local Initiatives Support Corporation (LISC)
National Community Stabilization Trust
National Council of State Housing Agencies
National Foundation for Credit Counseling
National Housing Conference
National Housing Institute
Neighborhood Housing Services of Greater Cleveland
Neighborhood Housing Services of Phoenix
Neighborhood Housing Services of South Florida
Rebuilding Together