Housing Counseling Needs Assessment

As the Market Returns to Pre-Bust Levels, Has the Need for Housing Counseling Diminished?

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EXECUTIVE SUMMARY

To help housing counseling stakeholders anticipate and face likely policy challenges during the next few years, SP Group, LLC (SP Group) and Summit Consulting, LLC (Summit) present our assessment of housing counseling needs. During this assessment, we examine the type of housing counseling likely to be in demand during the next few years based on anticipated challenges affecting homeowners. This white paper presents these findings, focused on the following objectives:

- To identify the emerging trends and the challenges they present for the housing counseling industry,
- To discuss methods for leveraging capital through private-public partnerships to address anticipated challenges, and
- To examine evidence on the effectiveness of counseling and provide considerations for future evaluations of HECM and HELOC counseling.

HUD has offered housing counseling since 1968. Demand for different types of counseling has been largely cyclical, following trends in housing finance. For example, during the foreclosure crisis that began about 2008, foreclosure mitigation counseling dominated all other kinds of counseling available.

As time passes from the foreclosure crisis, other types of counseling are likely to dominate. Pre-purchase counseling may continue to constitute the largest part of counseling demand, particularly as a record number of banks are loosening underwriting standards which can contribute to a higher risk of default and foreclosures. But changing demographics for homeowners are also likely to play an important role in shaping counseling demand. Many seniors who have retired and are living on fixed incomes may want to investigate the possibility of cashing out some of their equity with reverse-mortgages (Home Equity Conversion Mortgages or HECMs).

Others may have taken advantage of Home Equity Lines of Credit (HELOCs) during the housing price bubble in the middle of the first decade this century. Their ten-year "draw periods"—the period which cash is available fairly, freely and only interest needs be paid—are about to end. Thus, their HELOCs will reset to require regular monthly principal and interest repayments, and they may demand counseling to help them refinance or otherwise avert HELOC and/or first mortgage default.

Through this white paper, we present a closer look at current progress in the housing market and emerging trends in the housing counseling industry. We also describe methods for leveraging capital through public-private partnerships and considerations for econometric evaluations of HECOM and HELOC counseling.

PROGRESS IN HOUSING MARKET SINCE TROUGH

In the seven years following the crash, the housing market has substantially recovered. According to Case-Shiller U.S. National Home Price Index, home prices have returned to pre-bust levels.[1] CoreLogic also reports that the serious delinquent inventories have reached the lowest level since August 2007 with one million mortgages, or 2.6 percent, in serious delinquency.[2] Additionally, macro-economic indicators are showing signs of significant improvement. Unemployment has returned to 2007 levels of about 4.8% as of January 2017, from a high of 10% in late 2009. Real median household income has also increased over 7% from 2012 to 2015.[3]

Although certain housing and macro-economic indicators suggest a strong and sustained comeback from the crash, there are still lingering signs of distress, especially in certain regions. The Joint Center for Housing Studies at Harvard (JHCS) identified fewer new home starts as one of the current challenges. "Residential fixed investment (including homeowner improvements) has accounted for just 2.8 percent of annual GDP so far this decade, significantly less than the 4.3 percent share averaged in the 1980s and 1990s."[4]

Additionally, low-income households are experiencing worsening housing affordability, as income growth for those making the least has not kept pace. While housing costs have grown significantly—particularly among entry and mid-level homes—incomes for the lowest-earning Americans have barely grown.[5] In addition, a growing number of renters are experiencing housing cost burden where they spend more than 30% of their income on rent.[6] These burdens put households at risk of housing instability and homelessness, particularly in the nation's high cost cities.

Meanwhile, growing income inequality and the concentration of poverty have fueled an increase in residential segregation.[7] Based on the Distressed Communities Index, the recovery has not lifted communities that are in the bottom ten percent. There continues to be losses in employment, business establishments, education, and home vacancy rates.[8] SP Group's distress computation corroborates these findings by identifying a real difference in recovery between geographies at the neighborhood level. We found that about 15% of the nation's neighborhoods remain distressed.

As a result, there are millions of Americans still affected by the recession who remain vulnerable to adverse economic shocks.

[1] S&P Dow Jones Indices LLC, S&P/Case-Shiller U.S. National Home Price Index© [CSUSHPINSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CSUSHPINSA, February 13, 2017.
[2] CoreLogic, National Foreclosure Report January 2017, February 14, 2017.
[3] Census.
[4] JCHS, State of the Nation's Housing 2016, p 1.
[5] Zillow (http://www.zillow.com/research/housing-affordability-q4-2015-12111/)
[6] JCHS, ibid.
[7] See http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son_2016_200dpi_ch6.pdf.
[8] Economic Innovation Group, Distressed Communities Index, http://eig.org/dci.

EMERGING TRENDS AFFECTING THE HOUSING COUNSELING INDUSTRY

Housing counseling has been used throughout the mortgage loan lifecycle. Since 1968, HUD has offered different types of housing counseling assistance including: pre-purchase counseling for prospective homeowners, foreclosure mitigation counseling, as well as reverse mortgage, debt management and rental counseling.

In this section, we identify and focus on three emerging trends and the challenges they present for the housing counseling industry: (1) an increased need for reverse mortgage counseling due to an aging population, (2) anticipation of a Home Equity Line of Credit (HELOC) reset wave (borrowers needing non-default counseling) and (3) easing of requirements to get a mortgage, including lower minimum credit scores (borrowers needing pre-purchase counseling). In the following section, we review research on housing counseling effectiveness in addressing these types of issues in the past.

AGING POPULATION AND INCREASED NEED FOR HECM COUNSELING

- The U.S. population is aging at a considerable rate. The number of people aged 65 and over has increased by 20% since 2010. It is projected that by 2035, the population will nearly double, resulting in one in three households headed by someone aged 65 or older.[9]
- Typically, as households age they tend to experience a decline in household income. A growing aging population will likely result in an increased presence of low-income households and higher incidence of housing cost burdens. "From roughly a third of those aged 50–64, the cost-burdened share jumps to 45 percent of owners with mortgages aged 65–79 and to 61 percent of those aged 80."[10]
- It is important to consider the housing needs of the aging population, a challenge that requires an approach to housing counseling specifically aimed towards seniors rather than foreclosure mitigation or pre-purchase forward mortgage counseling.
- We project that the need for Home Equity Conversion Mortgage (HECM) counseling and other more general post-purchase counseling addressing senior needs will increase in the coming years.
- The HECM is FHA's reverse mortgage program that enables seniors to withdraw a portion of their home's equity, specifically aimed at supplementing the income of elderly households. Homeowners aged 62 or older, with mortgages, either paid off or paid down a considerable amount are eligible to participate in HECM.
- As the low-income, aging population grows, HECMs can provide the income to help alleviate elderly poverty. Studies have demonstrated that HECMs can raise elderly households above the poverty line. Additionally, more seniors who need funds to cover additional, aging-related costs, such as medical costs and home improvements, may consider the HECM program.
- A 2014-2015 Aging in Place study at OSU, funded by The MacArthur Foundation and HUD, combined administrative data from households counseled for reverse mortgages, HUD loan data for households who obtained HECMs, and Center for Human Resource Research survey data from 1,761 households three to nine years after receiving reverse mortgage counseling.[11] About two-thirds of survey respondents obtained and retained HECMs, while about a quarter decided against getting a HECM. Large majorities of both groups felt their counselors had provided sufficient information to make their reverse mortgage decisions. 74% of active borrowers and 63% of terminated borrowers agreed with the statement, "Having a reverse mortgage improved the quality of my life."

[9] JCHS, Housing a Growing Population, 2016, p. 1.

[10] JCHS, Housing America's Older Adults – Meeting the Needs of an Aging Population, 2014 (http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-housing_americas_older_adults_2014.pdf).

[11] Moulton Stephanie, and Cäzilia Loibl. "Aging in Place: Analyzing the Use of Reverse Mortgages to Preserve Independent Living Summary Report of Survey Results". John Glenn College of Public Affairs, The Ohio State University, October 31, 2015.

- The projected increase in demand for HECM reverse mortgages also includes an increased need for housing counseling agencies to respond to emergency HECM counseling. Emergency HECM counseling occurs without the client scheduling an appointment in advance. Allowable reasons for emergency counseling include the following: the client requires access to funds for impending medical treatment, and the client is not able to access these funds without obtaining proceeds from a HECM.

Anticipation of Three million HELOC Resets

- Approximately three million Home Equity Lines of Credit (HELOCs) are expected to reset between 2016 and 2018 with substantial increases in payments. HUD identified this trend in the FY 2017 Congressional Justification for Housing Counseling Assistance in response to why counseling remains a necessary to help homeowners.[12]
- Further complicating this matter, a significant portion of the homes with resetting HELOCs attached to them are underwater (mortgage debt exceeds the home value).[13] These borrowers would have a hard time refinancing to pay off their HELOCs, and might struggle with their first-lien mortgage since they are now saddled with a second loan payment. This could drive up defaults and losses in the housing market.
- Ideally, the borrower whose monthly HELOC payment could significantly increase would not only be aware of the coming increase but also be educated on all available options before choosing a solution. However, “it is entirely reasonable to assume, for example, that a borrower who has made timely payments over a [ten]-year period, simply may not know, or realize, that their monthly HELOC payment might soon double or triple, until it's too late.”[14]
- The concern about potential HELOC default is partially mitigated by the upswing in the housing market in certain geographies. But for a few distressed pockets, there could be foreclosure minefields. “Underwater HELOCs that are more than 60-days delinquent have a greater than 75% chance of eventually defaulting and losing nearly 100% of their value.”[15]
- To address these issues, housing counseling agencies must effectively and strategically launch a borrower awareness campaign targeting borrowers subject to HELOC resets, as well as prepare for an increased need in HELOC reset counseling.

Easing of Lender Requirements

- Recently, lenders have been loosening the requirements for borrowers to obtain a residential mortgage, including changes to minimum down payment and FICO score. In fact, in 2016, top U.S. banks lowered lending standards for the fourth consecutive year.[16] As witnessed before, the risk of default and foreclosure is higher when lenders loosen the underwriting standards.
- In a recent 2017 Office of the Comptroller of the Currency (OCC) Risk Assessment report, the agency found that credit risk is rising “as an ongoing trend in easing underwriting is compounded by “increased risk layering,” such as more policy exceptions, higher loan-to-value ratios and weaker covenants.”[17]

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[12] Department of Housing and Urban Development, FY 2017 Congressional Justification – Housing Counseling Assistance (https://portal.hud.gov/hudportal/documents/huddoc?id=28-HSNG.Counsel.Assist..pdf). It is also important to note that adjustable rate mortgages, while comprising a relatively small proportion of first lien mortgages, will also be resetting in coming years. The counseling for HELOCs is generalizable to other types of loans facing future increases in payments.
[13] RealtyTrac, “56 Percent of 3.3 Million HELOCs Scheduled to Reset with Higher Rates in Next Four Years Are on Underwater Homes”, March 5, 2015, (http://www.realtytrac.com/news/mortgage-and-finance/heloc-resets-report/).
[14] National Mortgage News, “How to Stay Afloat in the Coming HELOC Reset Tidal Wave”, July 21, 2015.
[15] Ibid.
[16] http://www.reuters.com/article/us-usa-banks-underwriting-idUSKBN149222.
[17] http://bankingjournal.aba.com/2017/01/occ-focusing-on-sales-oversight-at-large-banks/.

- Grace Dailey, the OCC chief national bank examiner, stated that "While [the movement from more conservative to more moderate underwriting practices] is consistent with past credit cycles at a similar stage, credit risk is expected to increase if the trends we see today continue."[18]
- Additionally, the announcement of proposed 'hair cuts' to the Dodd-Frank Act could lead to a significant deregulation of mortgage origination standards and practices.[19]
- Considering the resulting risk potential of recent trends, it is necessary for housing counseling agencies to continue to focus on pre-purchase housing counseling which can be an effective pre-emptive measure to prevent the approval of unaffordable mortgages and predatory lending.

[18] Ibid.
[19] http://www.housingwire.com/articles/39765-trump-were-going-to-do-a-very-major-haircut-on-dodd-frank?eid=325320735&bid=1714932.

LEVERAGING PRIVATE CAPITAL TO ADDRESS EMERGING CHALLENGES

This section discusses methods for establishing private-public partnerships to leverage capital and address the emerging challenges considering the potential impact of the proposed federal budget cuts of Community Development Block Grants (CDBG) on local housing counseling agencies (LHCAs).

With the announcement of the proposed elimination of Community Development Block Grants (CDBG) and the nearing end of Hardest Hit Funding in 2020, housing counseling agencies must be prepared to diversify funding streams to continue to provide services and address emerging challenges. Local housing counseling agencies that rely on state funding as their main or sole source of funding, would be dramatically affected by the elimination of CDBGs. Additionally, LHCAs will likely have to look to leverage private capital to supplement federal funding, as federal housing counseling grants to LHCAs are on average $20,000.

Two recent trends to leverage private capital for civic goals are Regulation Crowdfunding campaigns and Pay for Success grants. Regulation Crowdfunding allows small businesses and non-profits to raise up to $1 million on Securities & Exchange Commission (SEC) approved crowdfunding platforms. In 2016, the first calendar year of Regulation Crowdfunding, 79 companies were successfully funded in a fraction of the time it would have taken to go through a grant process. On average, funded campaigns raised about $227,000 each, with three companies raising $1 million.[20] Crowdfunding provides a promising method for leveraging private capital for housing counseling. It provides an expedient way to raise a small amount of unrestricted funding, while also generating broader support for housing counseling initiatives, including funders and participants.

The Pay for Success (PFS) method includes reimbursing the LHCA for outcomes achieved. This type of grant making can lead to social innovations and serves as an experiment in effective counseling strategies. However, the need for significant upfront investment to implement such programs is a constraint. Since PFS grants are disbursed once outcomes are achieved, an LHCA may need access to upfront funding sources for initial implementation. Pay for Success programs could be combined with Regulation Crowdfunding to address the need for upfront investment.

To effectively participate in a Pay for Success program or Regulation Crowdfunding initiative, LHCAs should also be prepared to measure their impact and provide evidence of success. Developing a framework for analyzing the impact of counseling initiatives will put LHCAs in a better position to make a case for continued or increased funding. The following section discusses considerations for measuring the effectiveness of housing counseling programs in addressing the emerging challenges of an increased need for HECM loans and the pending HELOC resets.

[20] https://venturebeat.com/2017/01/11/heres-how-regulation-crowdfunding-performed-in-2016/.

REVIEW OF METHODS FOR EVALUATING HOUSING COUNSELING

Over the past decade, many empirical studies have been conducted on the effectiveness of housing counseling and prudent industry practices for counseling agencies. While the studies may have had to overcome empirical hurdles, taken together they provide evidence that housing counseling services are effectively helping homeowners.

In summary, research has found that housing counseling

- lowers re-default rates
- reduces the probability of foreclosure
- increases the probability of curing delinquent loans and shortens time to resolution
- results in lower loan modification recidivism rates

To address the emerging challenges and justify funding for housing counseling, we believe continuing evaluations of counseling effectiveness, as well as measuring the impact of counseling grants is necessary.

In this section, we summarize published empirical findings, examine past studies to illustrate the presence of empirical hurdles, and discuss methods used to overcome them. In doing so, we clarify what future studies need to overcome the gaps in research related to housing counseling.

We would have liked to focus on studies that measure either the effectiveness of HECM or HELOC reset counseling, but have found few of the former and none of the latter.[21] However, the studies examined in this section use methods that can be applied to the HECM and HELOC settings.

We conclude the section with considerations for designing research-based, econometric studies of HECM and post-purchase counseling.

EMPIRICAL STUDIES OF HOUSING COUNSELING EFFECTIVENESS

Past studies of counseling have been characterized by empirical hurdles, most commonly selection bias and endogeneity.[22] Recent studies have expanded the evidence of housing counseling effectiveness by addressing these hurdles through innovative experimental design, including an Ohio pilot program evaluated using an experimental design with a random control group (Moulton et al., 2015)[23] and an outcomes study of a national sample of homeowners who entered foreclosure mitigation counseling (Jefferson et al., 2012).[24] We return to discuss these studies later in this section and highlight their implications for future research. Before doing so however, we review some older studies and highlight the empirical issues encountered.

[21] In addition to the 2015 "Aging in Place" HECM survey analysis mentioned above, there are a few earlier studies that examine the usefulness of HECM counseling (e.g., Delgadillo et al., *Journal of Financial Counseling and Planning*, 2014). Delgadillo et al. conduct an exploratory empirical study whose results can be used to improve reverse mortgage counseling services. However, neither Delgadillo nor "Aging in Place" provides an experimental based measure of the effectiveness of receiving counseling. Those who received counseling, and especially those who sought out counseling, could have been more predisposed to good outcomes than those who did not.

[22] See, for example, Homeownership Counselling: Although Research Suggests Some Benefits, Implementation and Evaluation Challenges Exist. United States Government Accountability Office, GAO-11-925T, September 14, 2011.

[23] Moulton, Stephanie, J. Michael Collins, Cazilia Loibl, and Anya Samek (2015). "Effects of Monitoring on Mortgage Delinquency: Evidence from a Randomized Field Study." *Journal of Policy Analysis and Management* 34, 1; pages 184-207.

[24] Jefferson, Anna, Jonathan Spader, Jennifer Turnham, and Shawn Moulton. 2012. *Foreclosure Counseling Outcome Study: Final Report*. U.S. Department of Housing and Urban Development.

Cutts and Merrill (2008)[25] review several interventions to reduce mortgage defaults. Studying a Freddie Mac pilot program, they show that credit counseling is associated with lower re-default rates after modification. They further point out that results suggest that counseling by phone only is superior to face-to-face counseling due to the lower participation rates and higher costs associated with the latter. However, the paper corroborates O'Rourke's (2010) statement in that there is no mention of controlling for selection bias in the paper.[26] Whenever outcomes for two groups are compared, there are two possible reasons for differences: different post-baseline experiences, and underlying differences at baseline ("selection bias").

Using a sample of subprime borrowers, Collins (2007)[27] examines how counseling affected foreclosure outcomes six-months after administering the counseling. Because of the potential endogeneity issues associated with the time in counseling, Collins uses the number of promoting materials mailed per neighborhood as an instrument. Matching the survey data to public records on foreclosure filings, the author provides weak evidence that each additional hour of counseling reduces the probability of foreclosure by 3.5%. This study provides a nice example of the use of an instrument to solve identification problems. However, the small sample, short follow-up time, and other selection issues, such as low response rates among less successful borrowers, make it difficult to draw conclusive results.

Ding, Quercia, and Ratcliffe (2008)[28] evaluate proactive post-purchase phone counseling for borrowers who were 60-day delinquent. The authors use a multinomial logit model to examine five after-counseling outcomes: cured, delinquent, prepaid, modified, and foreclosure. The authors find that timely counseling, even over the phone, can significantly increase the probability of curing delinquent loans. Data used by this study, however, suffers from several severe selection issues. The authors attempt to solve the identification problem using instrumental variables (IV) such as gender and LTV. Unfortunately, it is difficult to argue that these IV selections are uncorrelated with the outcome after counseling. Furthermore, they obtain the data from a program that targets borrowers in low-income or minority neighborhoods, which makes generalizing the finding to other borrowers difficult.

Quercia and Cowan (2008)[29] evaluate the impact of a community-based Mortgage Foreclosure Prevention Program in Minneapolis, which provided case management, post-purchase counseling, and/or assistance loans. The authors find positive impact using two proxies for success of the program: time from default to resolution and recidivism rate. The study, however, does not treat for selection bias.

Collins and Schmeiser (2010)[30] utilize a rich panel dataset on subprime loans. The authors take advantage of the panel structure of the data to solve heterogeneity and identification issues. They find evidence for the existence of negative selection—borrowers in more difficult situations were more likely to seek counseling. They found that foreclosure counseling increased a borrower's probability of receiving a modification. Furthermore, the authors consistently found counseling at earlier stages of default more effective than counseling received after the loan had already become seriously delinquent. In contrast, they found weak evidence that credit counseling effectively reduces the probability that borrowers will subsequently default; nevertheless, they showed that among borrowers who received a loan modification,

[25] Cults, Amy Crews and William A. Merrill (2008): "Interventions in Mortgage Default: Policies and Practices to Prevent Home Loss and Lower Costs," *Freddie Mac Working Paper* #08-01.
[26] O'Rourke, Colin. (2010): "Weighing the Evidence of the Effectiveness of Counseling and Education for Home Owners," CFS Issue Brief 2010-7. 1, Center for Financial Security, University of Wisconsin.
[27] Collins, J. Michael (2007): "Exploring the Design of Financial Counseling for Mortgage Borrowers in Default," Journal of Family and Economic Issues 28 (2): 207-226.
[28] Ding, Lei, Roberto G. Quercia, and Janneke Ratcliffe (2008): "Post-purchase Counseling and Default Resolutions among Low- and Moderate-Income Borrowers," Journal of Real Estate Research, American Real Estate Society, vol. 30(3), 2008, pp 315-344.
[29] Quercia, Roberto, and Spencer M. Cowan (2008): "The Impacts of Community-based Foreclosure Prevention Programs," Housing Studies, 23 (3): 461-483.
[30] Collins, J. Michael, and Maximilian Schmeiser (2010): "Estimating the Effects of Foreclosure Counseling for Troubled Borrowers," FDIC Center for Financial Research Working Paper.

counseled borrowers were less likely to go to foreclosure, and the earlier the counseling was received, the more effective it was.

Two recent studies provide more evidence for the effectiveness of pre-purchase counseling. An influential study (covered in the New York Times in April 2013) is Mayer and Temkin (2013)[31] which studied 18,258 loans that received pre-purchase counseling. The authors use a quasi-experimental method to select a synthetic control group of un-counseled loans with similar observable characteristics to those of the counseled loans. They found, for both first-time and repeat homebuyers, that those who receive pre-purchase counseling are one-third less likely to become 90+ days delinquent over two years after loan origination. Interestingly, while the authors admit that the matching algorithm used cannot eliminate all selection bias, they claim their extensive use of credit bureau data can eliminate most bias.[32]

In a second recent pre-purchase counseling study, Avila, Nguyen, and Zorn (2013) [33] explore Freddie Mac's affordable lending program. The study included 37,577 loans from the program spanning between 2000 and 2008. Of these 31,334 received counseling. To treat for selection bias with their quasi-experimental data, they use a bivariate probit model where they estimate delinquency and counseling outcomes simultaneously with correlated error terms. The authors found the 90+ delinquency rate is reduced by 29% three years from origination among first time buyers.

In summary, researchers have developed, and continue to explore, innovative ways to overcome the empirical hurdles in evaluating counseling. The relative merit of different approaches for different categories of homeowners is an empirical question best addressed with solid evaluation designs for field experiments.[34]

Considerations for Future Evaluations of HECM and HELOC Counseling

As mentioned above, while there are surveys demonstrating satisfaction with reverse mortgage counseling, those who received HECM counseling could have differed greatly from those who did not at the outset. In addition, studies have yet to evaluate the effectiveness of counseling as it relates to HELOC rate resets. However, previous research indicates that methods developed to examine the efficacy of housing counseling can address many of the issues that will likely arise from anticipated HECM and HELOC trends. For example, several studies have shown that post-purchase counseling results in better loan modifications. This is also a desired outcome for HELOC borrowers impacted by the rate changes.

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[31] Mayer and Temkin (2013): "Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks America's Experience," Report prepared for NeighborWorks America by Neil Mayer and Associates, Albany, NY.

[32] Mayer and Temkin also worked on the extensive National Foreclosure Mitigation Program Evaluation studies with co-authors Peter Tatian and Charles Calhoun (prepared for NeighborWorks America). These studies were ambitious in scope and followed the borrowers for (relatively) long post-counseling windows. The authors leveraged that they had loan modification and loan performance history prior to borrowers entering counseling to difference out the impact of unobservable characteristics on model estimates, and hence control for selection bias. The papers found positive effects of housing counseling. (Reports are available at: http://www.urban.org/research/publication/national-foreclosure-mitigation-counseling-program-evaluation-final-report-rounds-1-and-2 and http://www.neighborworks.org/Documents/HomeandFinance_Docs/Foreclosure_Docs/ForeclosureCounseling(NFMC)_Docs/2014_NFMC_UrbanInstituteReport.aspx).

[33] Avila, Gabriela, Hoa Nguyen, and Peter Zorn (2013), "The Benefits of Pre-Purchase Homeownership Counseling," *Freddie Mac Working Paper*.

[34] Still, it is important for researchers to work in concert with counseling practitioners to further expand the scope and benefit of counseling through further investment and outreach to “attract consumers who are unaware of the availability of this network but who would benefit if given the opportunity to self-select into a housing counseling program.” (Quote from: Gerecke, Sarah (2016): “Commentary: How Housing Counseling, Financial Education, and Consumer Guardrails Can Support Responsible Borrowers,” HUD: https://www.huduser.gov/portal/periodicals/cityscpe/vol18num2/ch5.pdf).

In designing new models for evaluating HECM and HELOC counseling efforts, it is important to consider the following unique attributes that could result in methodological weaknesses:

1. HECM borrowers may be more likely than the typical population to experience default due to age-related problems, including death. Consequently, future studies should factor in the likelihood of default due to age-related issues, as well as include a sustainable sample population that can be measured over a period of time.
2. HECM counseling is one of the few counseling services mandated prior to the borrower receiving approval. Studies may have difficulty identifying a control group.
3. The current mortgage market and rates available affects each wave of HELOC rate resets. When designing a methodology, it will be necessary to account for the differences in reset timing.

Recommendations for Improving Empirical Evidence of Counseling Effectiveness

In addition to the methodologies described in the above studies, two recent articles point to other aspects that will help design studies to investigate the effectiveness of HECM and HELOC counseling. The aforementioned 2012 Jefferson et al. report reveals that counseling intensity is important, and the 2015 Moulton et al. article further adds to the intensity argument showing that by combining goal-setting with monitoring and quarterly follow-up reduced mortgage default by 20 percent.[35] In other words, by augmenting the design of empirical counseling studies with innovations from the behavioral economics literature (as summarized in Thaler and Sunstein, 2008 [36]), researchers are able to refine studies by asking "what works best and for whom?"

We look forward to the next generation of studies. HUD has funded a large random assignment evaluation of pre-purchase housing counseling that may prove definitive. Through January 2016, this study recruited 5,800 prospective homebuyers into three treatment groups and a control group. HUD has planned an interim impact report on an early cohort in 2018, as well as planned a final report using telephone survey data gathered three to four years after baseline enrollment in 2020.[37]

[35] References for both papers above.
[36] Thaler, Richard H., and Cass R. Sunstein (2008): "Nudge: Improving decisions about health, wealth, and Happiness," *Yale University Press.*
[37] DeMarco, Donna, Nichole Fiore, Debbie Gruenstein Bocian, Shawn Moulton, and Laura Peck. Abt Associates. "The First-Time Homebuyer Education and Counseling Demonstration: Early Insights." HUD Office of Policy Development and Research, June 2016.

ABOUT SP GROUP, LLC

SP Group, LLC (SP Group) is a management consulting services firm, headquartered in Northern Virginia. We specialize in program evaluation, guidance and handbook updates, due diligence and compliance management as well as data analytics to help our clients make data-driven decisions.

OUR CAPABILITIES

SP Group brings expertise in project management, public administration, and policy development. SP Group is an SBA certified 8(a), minority and woman-owned (EDWOSB) and small disadvantaged business (SDB). We also have direct experience working as a prime contractor on several contracts at HUD, requiring program evaluation and compliance assessment, data analytics and due diligence services. In addition to HUD, we have experience working with several private and public sector financial agencies including Federal Housing Finance Agency (FHFA), Department of Justice (DOJ), Pension Benefit Guaranty Corporation (PBGC), Fannie Mae, The World Bank Group, and the Toronto Dominion Bank. Our combined experience from the federal, multilateral and private sector, allows us to develop approaches and methodologies that incorporate and leverage industry best practices, and provide effective and efficient support to our clients.

For more information, visit SP Group's website (http://www.spgroupusa.com).

ABOUT SUMMIT CONSULTING, LLC

Summit Consulting, LLC (Summit), headquartered in Washington, DC, specializes in applying cutting-edge quantitative techniques to the real-world challenges facing federal agencies and private-sector enterprises. At Summit, we solve complex analytical challenges with unparalleled customer service and extensive client collaboration. The solutions are complete only when our clients understand them and use them to solve their problems.

For more information, visit Summit's website (http://www.summitllc.us).

OUR CAPABILITIES

Summit's Mortgage Finance Directorate empowers clients to make informed decisions about risks to their mortgage loan portfolios and provides the quantitative tools needed to manage that risk and guide business, policy, and legal decisions. Summit's Mortgage Finance Directorate is comprised of economists, data scientists, and statisticians with specializations in quantitative risk assessment, mortgage financial analysis, loss forecast modeling, stochastic simulation and stress testing, and mortgage servicing analytics. Together, the Directorate has over 30 years of collective experience working directly in the mortgage finance industry, along with experience working in litigation consulting and banking. Dr. Seiler is the director of the Mortgage Finance Directorate

Summit's Program Evaluation Directorate uses experimental and quasi-experimental evaluation designs to provide reliable estimates of program effectiveness for a wide range of client services. Summit's staff of economists, econometricians, and research scientists uses quantitative techniques to assist our clients as they model risk, evaluate program performance, and predict future performance. Dr. Cave is the Senior Research Fellow in the Program Evaluation Directorate

WHITE PAPER CONTRIBUTORS

The authors of this paper have extensive experience in understanding not only the HUD mortgage landscape, but also counseling and the methods needed to assess the efficacy of borrower counseling.

Ms. Pratima Damani, founder and CEO of SP Group brings over a decade of experience in the real estate and mortgage finance industry. She led enterprise wide projects at Fannie Mae involving the design and development of key performance metrics. She also led projects on behalf of SP Group in the Office of Single Family (Asset Sales Office) and Office of Multifamily (Asset Management and Productions). Ms. Damani holds a Masters of Business Administration (MBA) degree from Kellogg School of Management, Northwestern University.

Ms. Alyssa Spina has a background in public administration, with experience researching grant-making best practices and effectiveness. She joined SP Group in early 2015 and has led a number of research-based initiatives for clients at HUD, including FHA insured mortgage data analytics. Ms. Spina is also a board member of a local housing counseling agency in D.C. where she provides pro-bono management and development consulting.

Dr. Eddie Seiler spent a decade at Fannie Mae where he directed servicing research for National Servicing Organization. He designed controlled experimental pilots to examine the effects of post-modification counseling. He subsequently joined Summit Consulting in early 2014 to head its Mortgage Finance practice, and he accepted the role of Summit Chief Housing Economist in early 2017.

Dr. George Cave, Summit's Senior Research Fellow, has had a rich career as a program evaluator. He has led many field experiments using random assignment and other experimental designs to evaluate the effectiveness of various social programs.

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