



Successes of Homeowner Education and Emerging Challenges:

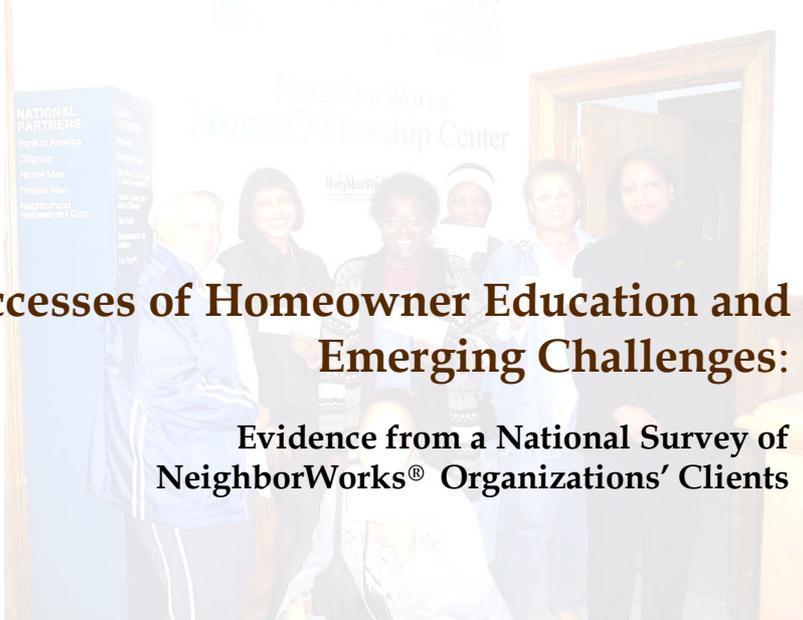
Evidence from a National Survey of
NeighborWorks[®] Organizations' Clients

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From its beginning, the NeighborWorks® (NW) Campaign for Homeownership sought to increase the number of low income and minority households throughout the country that became homeowners. NW developed educational and counseling programs and NW Training Institutes began to provide curriculum and training for local NeighborWorks® Organizations (NWOs) to aid them in reaching this goal. In the 1990s the rhetoric of federal and many local policies for affordable housing shifted away from an emphasis on rental housing and subsidies to a focus on investment in homeownership. As NWOs worked toward this goal through education and counseling, financial institutions developed new loan products and underwriting criteria to expand the homeownership market.

In 2004-2005 the Housing Environments Research Group at the City University of New York Graduate Center conducted a national survey of NWO home buyers to better understand the impact of homeownership education on low and moderate income households. Surveys were returned by 759 households served by 15 not-for-profit counseling agencies across the US, thus yielding a unique database for examining the home buying and homeownership experiences of this population. The research provides a snapshot of how homeownership education affects clients' ability to buy a home, the financial and other consequences of homeownership, and the challenges buyers face after purchase.

This study provides insight into how these households are coping with the pressures on them and the challenges they face as new homeowners. But it also reminds us that these buyers benefit from homeownership and from the assistance that NWOs provide long after the moment of purchase. The two perspectives together suggest new directions for NWOs in the new market environment.

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Evidence from a National Survey of NeighborWorks® Organization Clients

GETTING HOUSEHOLDS INTO HOME OWNERSHIP

NeighborWorks® Organizations' educational services make buying a home more feasible and successful for low and moderate income, and especially minority, households.

NWOs help people who are under-represented among homeowners become owners. NWOs throughout the nation are especially successful in assisting African Americans to become homeowners. They also serve clients with lower incomes than the national median and help them find affordable housing.

CHART 1: MEDIAN INCOME AND MEDIAN HOME VALUE

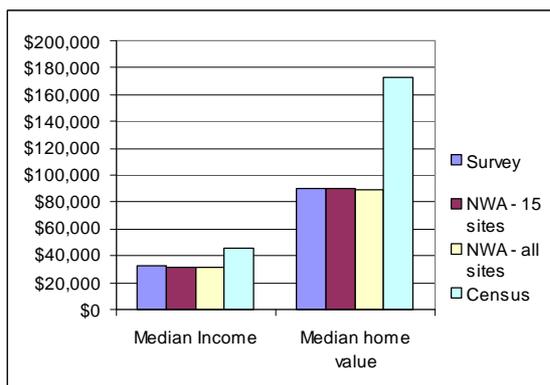
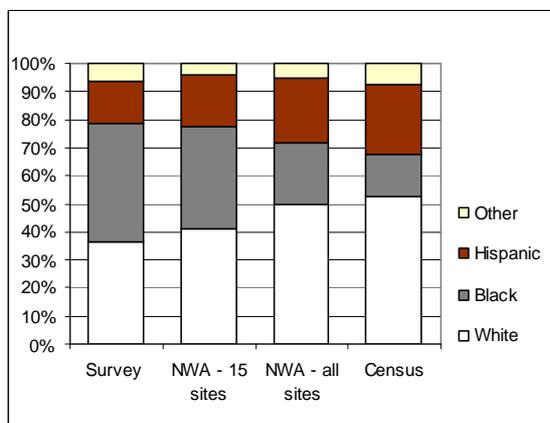


CHART 2: ETHNICITY



"This organization is extremely beneficial for individuals who fall below the middle-level income...Without this agency's assistance, it would have been almost impossible to have proceeded with making my dream of purchasing a home materialize."
~Client of NHS of St. Louis

More clients first hear about their NWO through family or friends than hear about it from banks or financial institutions, indicating a strong word of mouth referral network based on the agencies' reputation for being helpful.

"As a single mother I feel I would never have been able to buy my wonderful house without the help from CNE. I constantly tell people (friends, coworkers and strangers) about CNE. I've also photocopied useful information I've received from CNE to pass along. I feel it's my obligation to let people know how wonderful CNE is because CNE helped me immensely."

Almost 80% of buyers feel that the NWO helped them buy a home and rated NWO services as welcoming, helpful, respectful and easy to understand. Write-in comments by survey respondents, such as the following comment, underscore the support clients receive from NWO services. "Excellent help and hope... the staff made me believe in myself and that I could actually fulfill my dream of home ownership. I could not have done this without them." (Client, NHS of New York)

NWO curriculum and counseling assist would-be buyers in overcoming barriers to homeownership. The three top barriers to homeownership perceived by 40-50% of all clients were

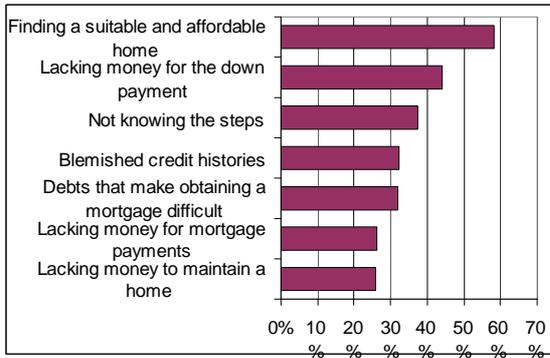
- Finding a suitable home they could afford;
- Having money for the down payment and closing costs;
- Not knowing the steps involved in buying a home.

Around 25-35% of clients also reported financial barriers including:

- Blemished credit histories (32.4%);
- Debts that make obtaining a mortgage difficult (32.0%);

- Lacking enough money for mortgage payments (26.4%);
- Lacking enough savings or income to maintain a home (26.0%).

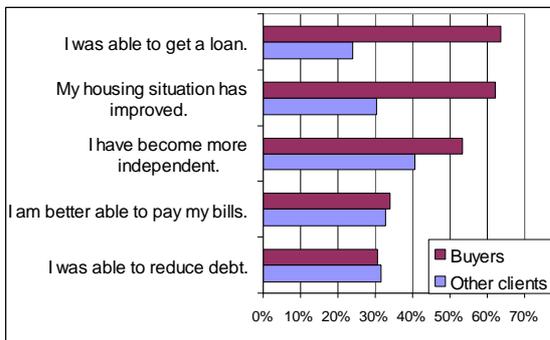
CHART 3: BARRIERS OF HOMEOWNERSHIP



"NHS of Waco made it possible for me to put a down payment on my home. If it was not for NHS of Waco, I would still be renting."
~Client, NHS of Waco

As the chart below shows, over 60% of buyers felt that their housing situation had improved as a direct result of NWO services. The strong majority of both buyers and clients who were still renters became more financially independent, were more able to get loans, reduced their debt and were better able to pay their bills.

CHART 4: DIRECT OUTCOMES OF NWO SERVICES

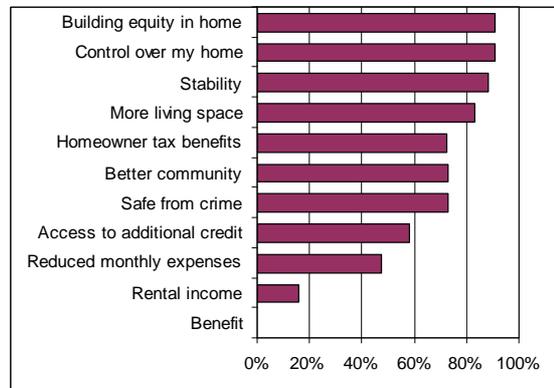


"NHS taught me a lot about getting good homeowner insurance, what to look for when buying a home, what neighborhoods would be good for me with good transportation, good schools."
~Client, NHS of Chicago

NWO assistance in buying a home resulted in very high levels of satisfaction with being a home owner.

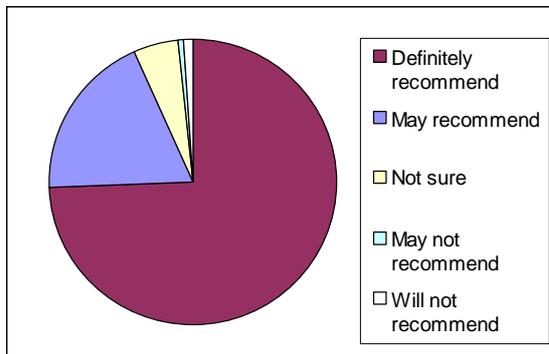
- Nine out of ten NWO buyers felt they benefited from increased stability, control over their housing, and building equity through ownership.
- The vast majority also gained from homeowner tax benefits, greater safety from crime, the opportunity to live in a better community, and more living space.
- Those who rated their experience with the NWO most highly, both in terms of the helpfulness of staff and curriculum, and in terms of how much it helped them achieve financial independence, experienced the most benefits.

CHART 5: PERCEIVED BENEFITS OF HOME OWNERSHIP



An overwhelming 73% would recommend homeownership to others. Many survey respondents wrote comments saying that they would and do advise friends and relatives to buy homes with the assistance of the NWO. Even clients who report struggling to keep up say they feel it is a worthwhile thing to do but that you need to be prepared.

CHART 6: RECOMMENDATION OF HOMEOWNERSHIP



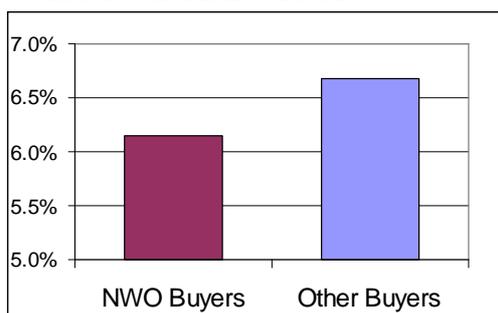
"Take some time, ask a lot of questions, even questions that you think are embarrassing or dumb. The only embarrassing or dumb thing is to make a serious decision without complete knowledge of what you're doing."

~Client, Inglewood NHS

NWO services positively affected clients' financial situations:

- Overall, NWO buyers have statistically significantly lower interest rates (6.15% average) compared to non-NWO buyers (6.57% average)
- Clients who are still renting but who are using more NWO services tend to be better able to cover living costs.

CHART 7: INTEREST RATES



NWO home buyers also reported non-financial gains, compared to clients who were still renters. They reported:

- More pride and satisfaction in their community
- More pride and satisfaction in their home

- Living in communities where the housing was in better condition than their previous homes
- Less neighborhood social disorder
- Greater expectations that their children would complete high school and go to college

"NHS made a single mom able to purchase a stable home to raise her child. I have been able to keep him in the same school district instead of bouncing around from apartment to apartment. Thank you for making a dream come true."

~Client, NHS of Lehigh Valley

As the market changes, new challenges are arising and NWOs are trying to respond.

These challenges include:

- 14 of the 15 sites report rapidly increasing home prices
- NWOs turn to higher income clients who can afford the costs
- There is little development of affordable housing

"If it wasn't for CDC, I would be worried all the time about having to move. I have stability today. Very grateful to CDC."

~Client CDC of Lana Island

KEEPING CLIENTS IN THEIR HOMES AND IMPROVING LONG-TERM ASSETS

Post-Purchase Services are important in helping households benefit from homeownership, avoid debt, and cope successfully with challenges:

- Clients who keep in touch with their NWOs take out fewer payday loans and owe less on household appliances
- They are also less likely to report taking out personal and home equity loans and taking on credit card debt

- Post-purchase clients who stay in touch with their NWO report lower interest rates
- Clients who use more post-purchase services have higher savings rates
- Clients who contact NWOs when they need help are more likely to avoid being late on their mortgage payments
- Clients who contact NWOs when they need help are more satisfied with homeownership from a financial standpoint and report fewer challenges in maintaining their homes

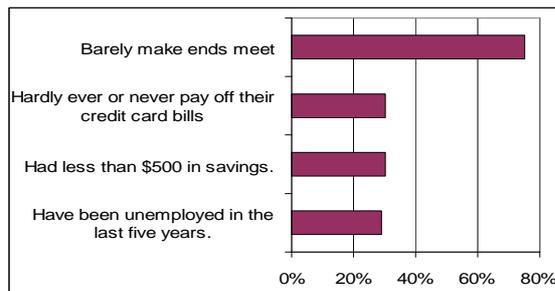
"Despite the setbacks I've experienced, I am still glad I own a home rather than renting. It's difficult to have money available for emergencies with my income but I am hoping and praying the struggle will soon be over. I appreciate what Affordable Housing did to get me in my home. I just wish I had been a bit more prepared. Perhaps a follow up class would be beneficial."

~Client AHD of Nashville

Because NWOs assist those who would otherwise have difficulty becoming homeowners, most still face many financial challenges:

- Over 75% of NWO clients surveyed reported that they could barely make ends meet at the end of each month, or that they did not have enough money to get through the month.
- About 30% hardly ever or never pay off their credit card bills at the end of the month.
- About 35% had less than \$500 in savings.
- 29% have been unemployed in the last five years.
- 19% of buyers rated their health as only fair or poor.

CHART 8: FINANCIAL CHALLENGES



Like all homeowners, NWO clients learn that homes need constant investment:

- The majority of clients (56 %) find that they need to make expensive and often unexpected repairs to their homes after purchasing them.
- Almost 20% of them choose to defer roof and foundation repairs, even though the problems can cause further damage to the home.
- Those who find they need to make major repairs report fewer benefits of homeownership and more challenges in terms of repairs, maintenance, increased expenses, and more responsibilities.

"I'm very proud to own my home. But now after all these years I need home improvement and my income has dropped. I'm not yet 62."

~Client, NHS of Springfield

37.5% of those who bought their homes with the assistance of NWOs still did not contact the NWO after purchase when they were in financial trouble. The most frequent reason was that they did not know that NWOs offered help to people who had already bought their homes.

Buyers who do not contact NWOs when in financial trouble are

- More likely to be 30 and 90 days late on mortgage payments
- Less likely to report financial gain from homeownership
- More often challenged by the demands of homeownership (repairs, maintenance, increased expenses, more responsibilities)
- Indebted because of: household items and payday loans; credit card debt; home equity loans; and personal loans from family/friends
- More likely to refinance
- Less able to cover household expenses every month.

By contrast, those NWO clients who return for financial management and home maintenance courses, as well as other services, accumulate more savings, avoid more debt, cover their

expenses better, avoid delinquency, experience more gain from homeownership and report fewer challenges.

"Thanks to the West Side NHS I was able to get a low interest loan and do some much needed repairs on my home." ~Client, West Side NHS

Some NWO clients are more likely to face more challenges in becoming successful homeowners and are likely to need more ongoing counseling and services. Comments written on the surveys indicate that clients do have ideas about what would help them:

- Contact and invite homeowners to workshops
- Financing programs to assist with roof repairs, bathrooms, etc. not just weatherization
- Send out information on when to refinance a home
- More advertising of homeowner services

NWOs may need to provide more services for clients who experience more barriers and challenges regarding homeownership. They may also want to do more post-purchase outreach to groups that are less likely to contact their NWO when in financial trouble after buying a home.

The table below describes differences among groups. **It is important to keep in mind that when these groups DO get post purchase assistance, they have much better experiences with homeownership.**

TABLE 1: PEOPLE WHO DO NOT CONTACT NWO WHEN IN FINANCIAL TROUBLE*

▪ Bankruptcy after purchase	64.9%
▪ Female	47.1%
▪ High health and financial burden	45.4%
▪ High mortgage interest rate	44.0%
▪ African American	42.4%

*The percentage indicates the proportion of people with certain characteristics who do not contact NWO when in trouble. For example, 64.9% of buyers who filed for

bankruptcy after purchase do not contact their NWOs when in need.

"First, I'd like to thank you -you helped us a great deal. I owe approximately \$60,000 in credit card debt. I am buried and can not get out. ...Although I am trying so hard and work as much overtime to pay them off...I am just paying mostly the interest on the credit cards. I spend less time home with the children, attend school to eventually be worth more financially. I am so stressed. If there was a way that your organization could once again help me, we would greatly appreciate it. Please call me. Thank you again. "

~Written in survey margin by client in trouble who had not contacted her NWO, NHS of New York.

NEIGHBORWORKS[®] ORGANIZATIONS' RESPONSES TO THESE CHALLENGES

As the fifteen sites participating in the survey began to see the results, they went into action to address the needs and problems the survey data were revealing. Their responses attempted both to improve pre-purchase counseling to address the new market climate and to respond to the difficulties faced by low and moderate income homebuyers after purchase.

Pre-purchase approaches included:

- Chicago NHS counsels clients who have not yet bought homes on post-purchase rehab expenses and encourages the return of customers post-purchase to solicit other services
- Many sites help clients obtain fixed rate conventional mortgages and discourage riskier products.

Post-purchase outreach and changes instituted by NWOs include:

- NHS of Great Falls hired a one-on-one counselor and set up a special post-purchase education room specifically for post-purchase services. The services include one-on-one counseling, post-purchase education, home repair and maintenance training.

- St. Petersburg NHS is hiring someone who has experience in public housing education, since it is important to realize that on the post-purchase side buyers often slip back into old habits after getting into homeownership. People need a post-purchase plan that reinforces new habits and concentrates on increasing income and decreasing spending. The NWO will form a post-purchase support group with such aims as helping people develop behavior changes like keeping down utility costs; or developing a plan for reaching financial goals without taking a third job.
- The CDC of Long Island brings in attorneys and real estate people who talk about wills, trusts, estates and insurance. Lenders discuss refinancing and rehab, as well as “borrowing smart.”
- The NHS of NYC has created a newsletter that is customer focused and goes to every homeowner in the database twice a year. They have also added additional post-purchase information to their website and send out an email newsletter. The website (www.nhsnyc.org) now has information available on home repair loans, emergency loans, debt consolidation, home maintenance training, reverse mortgages for senior citizens, and foreclosure prevention.
- NWOs in Inglewood, Great Falls, Lehigh Valley, St. Louis, Chicago, New York, Waco and others use Home Matters plus two pages from themselves to keep in touch with homebuyers.

The survey results also reinforced NWOs’ awareness of the importance of keeping in touch by working with loan servicers or by servicing loans themselves:

- NHS of Lehigh Valley and the NHS of Chicago not only send out newsletters to keep in touch with home purchasers, but also work closely with the loan servicers of some of those who received pre-purchase education from the NWO. This enables the NWO either to service the loans (and thereby be in touch very early on when customers miss a payment), or the servicer contacts the NWO, which may be able to work with the client to restructure the loan.
- NHS of Lehigh Valley makes a down payment assistance loan of \$5,000 at 3% and keeps in touch with the bank that made the mortgage loan, especially if the client is late on the down payment assistance loan. According to Janis Geist, NHS of Lehigh Valley will work with the client to straighten out both sides. They also make calls at the request of banks and restructure loans for them and the NHS. In fact, 80% of this customer base had been pre-purchase customers.

NEXT STEPS

NWOs have many ideas for ways to address emerging market issues in the future. These include:

- Development of a Rescue Fund to address unexpected issues, e.g. job loss
- Obtaining HMDA data regularly to be sure to see overall market
- A system to protect clients from foreclosure
- Obtaining more information on customers' perception of their situation
- Standardization of the homebuyer education program, e.g. 8 hours--and it should include all steps involved in purchasing a home
- Need a stronger focus on importance and impact of homebuyer education and linking it to better asset and credit outcomes, less debt, less use of savings for housing repair
- All customers need to receive fixed rate loans, no ARMs, no interest-only loans
- Need more counseling on housing repair as part of pre-purchase education since so many of NWO clients' homes are old and need repair
- As serious environmental problems occur, e.g. hurricanes, floods, earthquakes, codes become stricter, cost of construction increases, leads to inability of median-income families to purchase a home; deep subsidies may be needed in such situations

These ideas and others are being tested by groups across the country. National organizations like NeighborWorks® America and Freddie Mac are also beginning programmatic responses. For example, NeighborWorks® America has recently partnered with the Homeownership Preservation Foundation to launch a national Foreclosure Counseling Call Center. And in December 2005, the NeighborWorks® Training Institute in San Francisco will be offering a new course on "Post-purchase Education Methods."

However, more information is needed on what keeps so many homeowners from seeking help when they are in trouble, as well as what brings them to seek help when they do. And, we need to understand what assistance is most useful under what circumstances. In order to obtain a full picture of the successes and problems of post-purchase homeownership counseling, the Housing Environments Research Group will conduct focus groups in 2006 with three types of participants:

- NWO clients who seek post-purchase help
- homeowners in difficulty who have not yet contacted a counseling service
- NWO staff members

These focus groups will take place at several of the survey sites. We will also use national NeighborWorks® Training Institute meetings in April or June to find out from NWOs who needs post-purchase help, why some in need do not contact the agencies, and what they are trying to do to meet post-purchase counseling needs. These studies will help deepen understanding of the process of providing post-purchase services. Results are expected by December 2006.

CONCLUSIONS

NeighborWorks® America's Homeownership Campaign is making important contributions toward bringing homeownership within the reach of those Americans traditionally less able to buy homes. Survey data clearly show that NeighborWorks® Organizations help low income and minority households buy homes when they might otherwise face serious obstacles to becoming homeowners.

- NWO clients are disproportionately lower income and minority households, compared to census data;
- NWO clients face many barriers to homeownership including financial problems, bad credit histories, and lack of knowledge about buying a home;
- NWO services help them overcome these barriers and achieve high levels of satisfaction with homeownership;
- NWO clients obtain better interest rates and gain financially from homeownership.

The data show that keeping clients in their homes after purchase often requires additional assistance from NWOs. Because NWO clients are more likely to have low incomes, they continue to face financial challenges after purchase.

- They often have trouble paying household expenses and credit card debt;
- The majority encounter costly, unexpected repair needs in their homes after purchase, and many cannot afford to make these repairs.

One quarter of NWO clients returned for post-purchase services. These clients

- Avoided taking out higher priced loans, payday loans, and credit card debt;
- Reported more savings;
- Perceived homeownership to have more financial advantages;

- Were better able to cope with maintenance, repair, and additional expenses of homeownership.

Over one third of the buyers who encounter financial difficulties do not contact their NWO, mainly because they do not know that NWOs offer post-purchase assistance. These buyers are more often

- Behind on mortgage payments;
- Less likely to report financial gain from homeownership;
- More often challenged by the demands of homeownership (repairs, maintenance, increased expenses, more responsibilities);
- Indebted because of : household items and payday loans; credit card debt, home equity loans; and personal loans from family/friends;
- More likely to refinance;
- Less able to cover household expenses every month.

NeighborWorks® Organizations very often work in markets that are becoming less affordable, yet they continue to try to serve low-income and minority clients who would otherwise be shut out of the market. Therefore they are increasingly providing services geared not only to getting clients into homeownership but also toward keeping them there. Some innovations include

- Improving the pre-purchase curriculum to better prepare clients for the challenges they will face;
- Reaching out to encourage clients to return for more education when they encounter difficulty;
- Developing appropriate post-purchase curricula;
- Working with loan servicers to intervene when clients fall behind on mortgage payments.

Yet we still do not understand why so many clients do not seek help when they get into trouble. The next year of research will address that question and look for ways to successfully engage and serve clients in the post-purchase period.



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