

Homeownership Education and Counseling

Strategy description

Homeownership education courses offer prospective homebuyers instruction on understanding the home purchase process, credit, financing, and even maintenance aspects of homeownership. The training is intended both to reduce uncertainty about the home buying process and to improve buyers' ability to sustain homeownership over the long term. Courses are often offered as a requirement of below-market financing for a home purchase, or for qualifying for a particular mortgage product. In addition to courses, homeownership education can also be provided through one-on-one counseling.

History of the strategy

A variety of organizations have offered homeownership education for several decades. HUD first authorized a housing counseling program in 1968, and began regularly funding housing counseling agencies in 1977. Not all organizations providing homeownership education are HUD-sponsored: others include state housing finance agencies, lenders, mortgage insurers, and national and local non-profit organizations.

Target population

Moderate- and low-income homebuyers.

How the strategy is administered

Most providers of homeownership education and counseling are non-profit organizations. They typically partner with lenders (or may themselves be financial institutions) to provide training to prospective homebuyers. Education can consist of anything from classroom-style courses offered over a period of several weeks to a one-time counseling session or even a telephone session.

How the strategy is funded

HUD provides funding for over 400 housing counseling agencies (funding totaled \$44 million in 2007); grants from state and local governments, grants from foundations, and fees for services are also sources of funding.¹⁵⁸

Extent of use of the strategy

Widely used.

Locations where the strategy is being used

Homeownership education and counseling is offered in every state in the country.

Strategy results

According to one study, borrowers who received any form of pre-purchase counseling as part of a Freddie Mac lending program had a 19 percent lower delinquency rate than those who received no counseling. Borrowers who received one-on-one counseling had a 34 percent lower delinquency rate.

Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective

Pros:

- Homebuyer education and counseling reduces the likelihood that a borrower will become delinquent on his or her mortgage.
- Pre-purchase training increases prospective homebuyers' knowledge about the process, which can lead to better financial terms for their mortgage and better-informed selection of a home.

Cons:

- Homebuyer education and counseling sometimes requires buyers to postpone their home purchase for several weeks. If training is required for below-market financing, buyers may choose subprime financing that does not carry education requirements instead, foregoing the below-market loan, to avoid postponing the purchase.

Sources of information about the strategy

- Hiram, Abdighani, and Peter Zorn, "A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling," May 22, 2001. Available at: http://www.chicagofed.org/cedric/files/2003_conf_paper_session1_zorn.pdf
- HUD Approved Housing Counseling Agencies, HUD website. Available at: <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>

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