

Homebuyer Counseling: How the Informal Network  
Supports the Formal Homebuying Process

by

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B.S. Management Information Systems  
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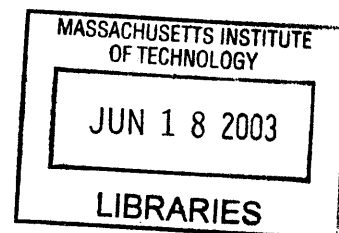
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Submitted to the Department of Urban Studies and Planning  
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Requirements for the Degree of Master in City Planning

## **Abstract**

This thesis explores the relationship between counselors that provide homebuyer counseling and the clients that use those services. The concern is with the interaction of the counselors and clients and how both counselors and clients use creative means to navigate the formal service system. How does federal and local housing policy impact the delivery of services? What is the “informal system” of counselor-client interaction and negotiations of rules and regulations that either advances or retards “progress” in meeting the goals of homeownership? This analysis provides examples of counselor practice as it applies to homeownership. The goal of homeownership counseling programs is to help the client navigate the purchase process until he successfully purchases a home. The translation of policy to practice can positively or negatively affect a client’s view of his potential of owning and maintaining a home. Intervention by counselors might make a positive difference.

Thesis Advisor: Langley C. Keyes  
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## **Biographical Note About Jacqueline L. Cooper**

Ms. Cooper received her B.A. in Management Information Systems from University College of Northeastern University, Boston, Massachusetts in 1984. Her professional experience includes positions in computer programming and business systems analysis at John Hancock Financial Services Corporation, Stone and Webster Engineering Corporation, John Hancock Property and Casualty Insurance Company, and the U.S. Department of Transportation Systems Center.

In 1996, Ms Cooper became an instructor for Homebuying 101, the City of Boston's first time homebuyer education program. In 1999 she also was an instructor for Fenway Community Development Corporation. In connection with her work with the City of Boston and Fenway Community Development Corporation, Ms. Cooper educated hundreds of Boston area residents in the home purchase process. She conducted the credit seminar during a HUD Homebuyer's Fair in Boston in 1998. She also taught the Money Matters continuing education personal finance course at Roxbury Community College in 1998 and 1999.

Ms. Cooper has also served as real estate project manager for Madison Park Development Corporation where she was responsible for preparing new condominium owners for homeownership and coordinating homebuyer and condominium owner education programs in English and Spanish.

Ms. Cooper, as principal owner of Financial Education Associates is currently overseeing the management of administrative and instructional services for the City of Boston's Homebuyer 101 program.



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## **Chapter 1: Background**

This thesis will explore the relationship between counselors that provide homebuyer counseling and the clients that use those services. The concern is with the interaction of the counselors and clients and how both counselors and clients use creative means to navigate the formal service system. What is the “informal system” of counselor-client interaction and negotiations of rules and regulations that either advances or retards “progress” in meeting the goals of homeownership? This analysis provides examples of counselor practice as it applies to homeownership. The goal of homeownership counseling programs is to help the client navigate the purchase process until he successfully purchases a home. But many times, clients may have issues that prevent them from attaining the ultimate goal of homeownership. Intervention by counselors might make a positive difference.

The counselor has rules and regulations to follow when delivering services. There is a limited amount of time to serve each client. How much a housing counselor can help a client may relate directly to how much the client wants to be helped and the effort the client wants to make on his/her own behalf. It also relates to the degree of creativity and effort the counselor and the choice to informally assist the client.

As a homebuyer counselor, what does it take to assist the client in achieving the goal of homeownership? It is not enough to be competent in the subject matter when delivering services. Effectiveness depends on keeping current on the events and trends around the city, the network of professionals inside and outside of the organizations who may provide services relevant to clients’ needs, and the ability to think quickly and critically. How does a counselor determine how much assistance should be given?

To increase the capacity to support clients, professionals along the home purchase process have formed relationships that affect every aspect of the client’s journey to homeownership. This network was not formed for the gain of the individual professional but to assist clients that are capable of owning a home but need additional assistance in the purchase process.

In the outline of the path to homeownership, the reader will have a picture of how the process is supposed to work in terms of regulations and requirements as well as the barriers in the process that prevent the counselor from fast problem resolution. Discrimination based on race and social class may play a role in the outcome of solution. There is a focus on the ways in which counselors help clients despite the barriers: i.e. informal mechanisms and devices in addition to creativity used to make homeownership achievable for the clients.

I have been a first time homebuyer educator for 6 years. The education programs are program are effective for those who have positive experiences in working with professionals, but it takes more than the 8-12 hour classes that are taught for individuals who feel alienated by the system. Some of the class participants are ready to purchase

homes after the class, but many are not. There are complicated situations to resolve in order to prepare some participants for homeownership. Issues of credit, indebtedness, income eligibility, and predatory practices are often complex and require creative solutions that are not a part of the formal rules and regulations.

There is analysis on the experiences counselors in the low-moderate income homeownership arena. These experiences will include those of Community Reinvestment Act loan officers and underwriters who prepare and process loan applications for specialty first time homebuyer mortgage products, community development corporation project managers who provide home ownership opportunities, and workers in social advocacy agencies who specialize in assisting low income homebuyers. There are regulations requiring that these professionals create an environment of fair access for the clients.

In the thesis I examine gaps among program rules, requirements, and procedures that are satisfied by the informal network. Is it worth formalizing the informal network? Are there programs available to fill the gaps that were not otherwise considered as a part of the process?

## **Setting**

The setting of this analysis is Boston, Massachusetts. Boston has one of the most expensive housing markets in the United States. The market is expensive for homeowners and renters partially due to limited housing stock. Affordable homeownership options are limited. This phenomenon has prompted renters who never considered owning a home to explore the process of buying a home. There are local programs available to low-and moderate-income homebuyers including specialty mortgage programs and affordable housing stock. Counseling programs feed individuals to the housing and mortgage programs.

## **Methodology**

In discussing my thesis topic with professionals in this field, I met individuals in the home purchase arena who clearly did not understand the informal network of counselors. It was assumed that success on the job related purely to the counselor's education of real estate products. Personal networks outside the workplace were not a factor in how well a counselor did his job. I cannot prove empirically that networking and education is superior to education alone. Through interviews I can tell the stories of those who have combined education and personal networks to produce positive results as counselors. In order to answer questions regarding the formal and informal work of homebuyer counseling, there are four approaches to my research.

### **Counselor Interviews.**

I interviewed individuals who serve or have served as homebuyer counselors. Many of these individuals are still in the homeownership arena but may have positions as lenders,

program managers, and housing project managers at this time. They continue to assist low and moderate-income homebuyers by providing services that assist in the navigation through the homebuyer's process. Interviewees are:

1. **Florence Hagins** – Assistant Director for Massachusetts Affordable Housing Alliance. After a career in hospital administration, Ms Hagins entered the affordable housing field through volunteerism and activism. In addition to her primary responsibility of managing statewide affordable housing advocacy through the Homebuyer Union, Ms. Hagins counsels first time homebuyers and homeowners.
2. **D. Corwyn Jackson** – Director of Homebuyer Education, Massachusetts Affordable Housing Alliance. Mr. Jackson's former employment titles include loan officer and Vice President and Director of Housing at the Organization for a New Equality (ONE). Mr. Jackson's job responsibilities include pre- and post purchase homebuyer counseling and foreclosure prevention counseling for soft-second mortgages.
3. **Andrea Laing** – Former Program Manager for Financial Programs - City of Boston Homebuyers Assistance Unit. Ms. Laing is currently employed in the mortgage department at Boston Private Bank. Her previous employment includes retail banking customer service, loan processor, and mortgage underwriting. Ms Laing was a pre-purchase homebuyer counselor for the City of Boston.
4. **Maria Mulkeen** – Project Manager for Housing, Neighborhood Development Corporation of Jamaica Plain. Ms. Mulkeen has been a housing project manager for Urban Edge Community Development Corporation and Tent City Community Development Corporation. In her past employment, Ms. Mulkeen supported first time homebuyers in purchasing homes in affordable housing lotteries sponsored by her employers.
5. **Eva Osorio** – Project Manager for Lending, Urban Edge Community Development Corporation. Ms. Osorio has held various positions for Urban Edge CDC. In her current position, Ms. Osorio provides support for the buyers of the organization's affordable housing units.
6. **Renee Owens** – CRA Loan Officer, Boston Federal Savings Bank. Ms. Owens' former employment titles include Assistant Vice President and Manager of a loan center for a major Boston bank and Program Manager for Technical Assistance-City of Boston Homebuyers Assistance Unit. Ms Owens was a pre-purchase homebuyer counselor for the City of Boston.
7. **Doreen Treacy** – Director of Civic Health, Codman Square Health Center. Prior to this position, Ms. Treacy designed, managed, and was an instructor for Homebuying 101, the City of Boston's pre-purchase homebuyer education program. In this role, Ms. Treacy counseled first time homebuyers.

8. **Madeline Vega** – Manager, CRA Mortgage Office, Sovereign Bank. Ms. Vega has been employed as a mortgage originator, a loan officer, and director of a neighborhood home information center. In her past positions, Ms. Vega provided both pre-purchase homebuyer counseling and homeowner counseling.

During the interviews, the following questions were asked of each interviewee:

1. What is your job description? Do you provide only counseling services or do you wear other hats (related and unrelated) in the organization?
2. How did you acquire this position? What past experiences brought you to this position?
3. What training have you had since you became a homebuyer counselor?
4. What is your organization's stand on counseling versus where you stand on counseling? (Issues include time spent on clients, type of assistance given, etc.)
5. What qualifies a client for counseling at your agency?
6. What is the format of counseling session (time and content)? Do you adhere to it?
7. What circumstances cause you to go beyond your organizations guidelines on a client's behalf?
8. What qualities show you that a client is not qualified for homeownership? Do you tell a client that they are not eligible for homeownership? Under what circumstances?
9. How did you establish your counseling support network? Was the formation of your network organizationally mandated or personally established?
10. What are your organization's affiliations?
11. How do you keep up with what's new regarding issues of low and moderate homeownership?
12. What types of professionals are included in your network? How do you maintain your connections?
13. Do you and/or your organization politically advocate for clients?
14. Have you intervened on a client's behalf in disputes with other professionals in the homebuyer process (real estate agent, home inspector, lender, appraiser)?



Karen Weiner, The Director of Homeownership Initiatives for Citizens' Housing and Planning Association was interviewed to discuss the formation of the Massachusetts Homeownership Collaborative.

### **Seminar Notes.**

On November 20, 2002, I attended a housing conference sponsored by Citizen's Housing and Planning Association (CHAPA). Vada Hill, Senior Vice President and Chief Marketing Officer of Fannie Mae, presented the results of a marketing survey of low and moderate-income homebuyers. This information was important in describing the concerns of clients who seek pre-purchase homebuyer counseling. Understanding a client's concerns is an essential part of providing services that will facilitate his goal of homeownership. Notes from this presentation provide additional insight on client goals, concerns, and perceptions.

### **Reflection on Practice.**

I have reflected on my practice as a homebuyer counselor. I have worked in the industry as a pre-purchase education instructor for over 6 years and have provided one-on-one counseling during that time.

### **Literature Research.**

Literature was researched reflecting the practices of other front line workers, homebuyer counseling, and communities of practice to supplement my findings.

## **Chapter Summaries**

### **Chapter Two: Framework.**

In the first chapter, I establish the framework under which the homebuyer counselor operates. Housing legislation evolved from serving middle and upper income citizens to an effort to be more inclusive to lower income individuals. As policy progressed, first time homebuyer programs were created 35 years ago to support this "at-risk" population. Enforcement of the Community Reinvestment Act and other legislation requiring service to lower income individuals has resulted in financial institutions providing mortgage products tailored to this population.

### **Chapter Three: Homebuying Steps, Lender Requirements, and Barriers.**

The homebuyer counselor must understand the steps in the home purchase process as well as the rules and regulations that govern the process. There are real and artificial barriers to completing the purchase process. The barriers are the force that creates the informal counselor/client relationship.

#### **Chapter Four: The Counselor.**

Chapter 4 gives insight into the job of homebuyer counselor. What are their professional positions? Why do they choose to assist clients beyond the boundaries of the job? What are the tools and relationships, formal and informal, needed to assist clients in the successful purchase of a home.

#### **Chapter Five: Situations of Counselor and Client Interaction.**

How do counselors and clients interact? These stories are important to show that these relationships can be influential in assisting clients in purchasing a home. While all relationships do not culminate in the immediate purchase, the relationships among counselor, client, and other real estate professionals increase the client confidence in his/her capacity to purchase a home in the future.

#### **Chapter Six: Summary and Recommendations.**

In the final chapter, the formal and informal practice of the homebuyer counselor is reviewed. Those who set the rules and regulations of the homebuyer process believe that the existing procedures facilitate the process for all low and moderate-income buyers. How can organizations and government improve the profession of homebuyer counseling? What are recommended actions that would improve service to lower income and minority buyers?

## **Chapter 2: The Framework**

### **Introduction**

Homebuyer counseling is a method developed to assist low and moderate-income households in understanding the requirements of successful homeownership. Historically, housing policy that opened doors for homeownership in the United States was not directed toward low and moderate-income household and was particularly hostile to minority and immigrant households. Race and social class played a part in excluding these households from purchasing homes. These policies have also provided financial assistance to property owners who had a difficult time maintaining payments during economic downturns. This chapter reviews major U.S. housing legislation that eventually led to pre-purchase homebuyer counseling.

### **Housing Legislation in the United States**

#### **Homestead Act 1862**

The Homestead Act of 1862 was born out of a desire for the United States Congress to expand development of prairie land in the United States using private investment. There were vast lands in the center of the country that needed to be developed for economic reasons. It was easier to protect developed communities that could levy taxes than to protect vast acreage of wilderness. The United States government encouraged migration to the prairies of America by giving title (ownership) to heads of household who were at least 21 years old who settled on and cultivated this land. The homesteader had five years to develop the property into an income-producing asset.<sup>1</sup> This opportunity was open to citizens, women, former slaves, and immigrants. A filing fee of \$18 was required.

The Homestead Act yielded about 2 million homesteads and the development and cultivation of 270 – 285 million acres of land over its 123-year history. Approximately 77.1% of all applicants were white<sup>2</sup>. When sufficient wilderness land was cultivated, the legislation was repealed in 1976 for land located in the continental United States with provisions to extend the opportunity in Alaska until 1986.<sup>3</sup>

Homesteaders had a difficult time meeting the requirements of creating a livable and profitable property in a five-year period. The ground was rocky dry, or swampy. Crops failed in the dry soil resulting in a lack of sufficient income for the homesteader. Black homesteaders faced racial prejudice and discrimination, charges of illegal fees, discriminatory court challenges and court decisions, and land speculators.<sup>4</sup> To preserve the policy, the federal government made provisions for the homesteader to earn a living

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<sup>1</sup> [www.nps.gov/home/homestead\\_act.html](http://www.nps.gov/home/homestead_act.html)

<sup>2</sup> Melvin L. Oliver and Thomas. M. Shapiro, *Black Wealth/White Wealth*, p. 15.

<sup>3</sup> [www.nps.gov/home/homestead\\_act.html](http://www.nps.gov/home/homestead_act.html)

<sup>4</sup> Melvin L. Oliver and Thomas. M. Shapiro, p. 15

elsewhere during times of unfavorable crop conditions. There was no protection against predatory and discriminatory practices against minorities and illiterate whites.

The government made additional legislated provisions to increase the odds that purchasing land through the Homestead Act would be a viable alternative of property ownership for citizens. Subsidies of up to \$500 were given to homesteaders whose crops were not worth at least \$300. There was no education provided to settlers either before or after the homesteading process regarding techniques for improving soil condition and alternate land uses.

While homesteading provided an opportunity for property ownership for households and an economic development vehicle for the nation, there were no mechanisms to provide homesteaders with the information to become successful. Many participants in the homestead program failed to develop an operational homestead due to a lack of pertinent information.

### **Depression Era Legislation**

Mortgages written in the 1920's during a favorable economic climate were amortized over a short term (5 years). Homeowners consisted of upper-middle and upper-income households that could afford the 50% downpayment required to obtain a mortgage. Homeowners found it difficult to pay their mortgages during the depression and mortgage foreclosures became common. In an effort to reverse the weakening of the homeownership structure, the following legislations was enacted:

1. **The Federal Home Loan Bank Act of 1932** created the Federal Home Loan Bank System to assist lenders with capital to finance mortgages.
2. **The Home Owners' Loan Act of 1933** created the Home Owners' Loan Corporation (HOLC) that assisted homeowners in refinancing defaulted mortgages and provided mortgages for foreclosed properties. This legislation provided longer mortgage terms (15 years) with a lower interest rate (5% maximum) creating lower periodic payments for homeowners.
3. **The National Housing Act of 1934** created the Federal Housing Administration. The FHA provided government insurance for mortgages made by private lenders to encourage investment in housing<sup>5</sup>. This important legislation reduced the downpayment required for a home purchase and further expanded the term for repayment. Homes were purchased with a 25% downpayment and a 20-year mortgage term<sup>6</sup>.

These homeownership programs were quite helpful for households with middle incomes or more and preserved and increased their chances for homeownership. However, the

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<sup>5</sup> Barry G. Jacobs, Guide to Federal Housing Programs, (Washington: Bureau of National Affairs, 1986), p.6

<sup>6</sup> Nicolas P. Retsinas, "Beyond the Bully Pulpit" Harvard Design Magazine, p.26

housing policy for low-income households consisted of slum clearance and the creation of public housing. There was no focus on homeownership for low-income, central city households. The National Industrial Recovery Act in 1933, which authorized the creation of public housing, served a dual purpose. First, the construction of the housing developments created much-needed jobs for the unemployed during the depression. Secondly, it provided new low-income housing to those living in slum areas of American cities.

## **World War II**

After returning from World War II, veterans and their families accessed the benefits of the no-downpayment Veterans Administration mortgage provided for in the Servicemen's Readjustment Act of 1944 also known as the GI Bill of Rights. The VA mortgage gave veterans, who otherwise would not be able to purchase homes due to the lack of savings, a mortgage product through which they could obtain a home.

While white households were able to purchase homes using FHA and VA mortgages to purchase new housing built in the suburbs, minority and immigrant households were denied those avenues to homeownership due to policies discouraging the mixing of social and racial classes. Section 929 of the "FHA Underwriting Manual, 1938" states,

Areas surrounding a location are investigated to determine whether incompatible racial and social groups are present, for the purpose of making a prediction regarding the probability of the location being invaded by such groups. If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes.<sup>7</sup>

These populations found it difficult to obtain housing eligible for FHA mortgage insurance in the suburbs and in urban areas. The FHA did not guarantee mortgages for properties in the central city, specifically in slum and blighted areas as well as in central business and commercial districts. FHA forbade lending to households whose home purchase would integrate a single race neighborhood. Lenders and builders were discouraged from creating homeownership opportunities for minorities.<sup>8</sup>

Minority and immigrant families could purchase homes during this time period if the household could locate a suitable property and qualify for a conventional mortgage. The majority of these households were excluded because of lack of access to a downpayment, insufficient income to repay the mortgage, credit limitations, and racial and ethnic discrimination in the housing and financial sectors. Counseling and education were not available to teach this population how to navigate the home purchase process.

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<sup>7</sup> "Underwriting and Valuation Procedures Under Title II of the National Housing Act."

<sup>8</sup> Rachel G Bratt, Federal Homeownership Policy and Home Finance: A study in Program Operations and Impacts on the Consumer, p.89.

## The 1960's

In 1962 President John F. Kennedy issued an executive order mandating equal opportunity in mortgage processing, reversing the biased lending practices of the FHA and Veterans Administration. Equal opportunity laws were applied in conventional loan processing through the Civil Rights Act in 1968. Minority citizens were now offered legal protection when pursuing homeownership opportunities previously denied through discriminatory practices in government and private lender mortgage administration.<sup>9</sup>

By the late 1960's support for minority homeownership grew. This was also a time after urban riots had damaged many central city areas and had continued to destroy property even up to the time of the assassination of Martin Luther King, Jr. in 1968. Legislators debated the need to support the desire of central city, minority residents to become homeowners, a change from the past low-income rental support historically provided through government legislation. Legislators also debated the level of support that would be needed to assist the FHA in adjusting operations to serve their new customer base and to provide technical support for low-income minority households who may not understand the responsibility of homeownership.

In 1968 the Housing and Urban Development Act was passed. The goal of this legislation was to construct 26 million homes and apartments over 10 years to replace or rehabilitate substandard housing in the central city. The legislation included extending the same support given through rental subsidies to low-income households with incomes below 80% of the area median income that desired homeownership through Section 235. Section 223(e) provided mortgage insurance for central city areas that had been denied mortgage insurance through past FHA housing policy.

Section 237 of the HUD Act of 1968 was the first legislation that provided for housing counseling and insurance of mortgages granted to lower income households whose credit and income patterns would not have been historically conceived of as conducive to homeownership. The popular theory at the time was that minority and immigrant families lacked the skills to budget and therefore were in need of counseling to establish a pattern of steady employment, budgeting, and timely bill payment as well as education on the proper care and maintenance of a home. Through counseling assistance, it might be possible that these households would become successful homeowners. The HUD Section 237 "Special Mortgage Assistance" program had the following provisions:

The purpose of this section is to help provide adequate housing for families of low and moderate income, including those who, for reasons of credit history, irregular income patterns...are unable to meet the credit requirements of the Secretary for the purchase of a single-family home...but who, through the incentive of homeownership and counseling assistance, appear to be able to achieve homeownership.

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<sup>9</sup> Michael W. Carliner, "Development of Federal Homeownership Policy, p.307

(e) The Secretary is authorized to provide, or contract with public or private organizations to provide, such budget, debt management, and related counseling services to mortgagors whose mortgages are insured under this section...

(g) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of Subsection (e) of this section.<sup>10</sup>

Over time the Section 235 homeowner had challenges in repaying the mortgages and defaults escalated. By the early 1970's, these homeowners were required to receive foreclosure prevention counseling in hope of protecting the government's interest in their homes.

### **HUD Section 235 Mortgages**

The HUD Section 235 program had challenges that contributed to its lack of success. The program provided that buyers pay a nominal downpayment and 20% of their income or 1% interest for mortgage payments, whichever is the greater.<sup>11</sup> Documented internal procedures appeared to protect the interest of the government as well as the buyer. Before the closing of the mortgage transaction, certain procedures were to be completed to the agency's satisfaction in evaluating the property and the buyer.

- **Property Evaluation**

**The property was to be appraised for fair market value.**<sup>12</sup> Appraisals were performed to determine value. Value was to be determined by other home in the neighborhood. This practice protects both the homebuyer and the lender in the event of a forced sale. .

**The property was to be inspected for major defects.**<sup>13</sup> This procedure was to certify that new and substantially rehabilitated property would be of good quality in compliance with a housing goal set by Congress in 1949 to 'provide a decent home and a suitable living environment for every American family'. It is, however noted in the HUD handbook for Section 235 mortgages that

Standards and criteria with respect to appraisal, location, construction, and credit requirements will be those applying to the program under which the mortgage insurance is originated, except that special credit assistance can be provided under Section 237, and certain requirements can be waived in older, declining neighborhoods...<sup>14</sup>

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<sup>10</sup> Section 237, National Housing Act as quoted by Rachel G. Bratt, p 108.

<sup>11</sup> Michael W. Carliner, p 313.

<sup>12</sup> Rachel G. Bratt p. 212

<sup>13</sup> Ibid, p.215.

<sup>14</sup> "Homeownership for Lower Income Families (Section 235), A HUD Handbook", p17

- **Borrower Evaluation**

**The repayment capacity of the mortgagor was to be evaluated.**<sup>15</sup> According to the regulations, HUD personnel were to review employment, credit, debt, and asset information of the buyers.

**Section 237 eligible mortgages would receive counseling.** Families who met the income qualification of the Section 235 program but had marginal credit due to sufficient extenuating circumstances and income patterns were to receive counseling in selective cities regarding FHA-insured financing, budget, and debt-management counseling.<sup>16</sup>

### **Actual Practice**

HUD personnel were responsible for performing appraisals. This responsibility was sometimes inappropriately delegated to fee for service appraisers who may have had an interest in the sale of the property. Home inspections did not document major defects in homes when the inspections were performed. As some buyers purchased using the Section 237 product, proper inspection and appraisal criteria were not performed because property in declining neighborhoods were exempted from the process.

Certain lenders received preferential treatment by receiving faster mortgage processing. The quality of mortgages insured was diminished by these practices.<sup>17</sup> At times the lender did not perform the necessary income or credit verification. Buyers did not always have adequate savings to pay for closing costs and borrowed the money from friends and family. There was no savings remaining for reserves to make repairs or to make mortgage payment in the event of a loss of income.

The practice of ‘redlining’ was common in steering minority buyers toward declining neighborhoods where ethnic minorities (Irish, Jews, and Catholics) lived. Redlining was a procedure by which local lenders would delineate a neighborhood with a red line where funds will be spent for minority mortgagors. These areas typically had decreasing public services. Ethnic minority families were intimidated into selling property to realtors under the threat of declining property values at a low price. The price was raised substantially for the African-American family purchasing the property.<sup>18</sup> The practice also limited investment in the redlined communities concerning lending for home repairs and providing appropriate homeowners’ hazard insurance.

The low-income and minority homebuyers were not adequately prepared to purchase these homes. Until the HUD Section 235, this population was excluded from

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<sup>15</sup> Ibid. p..227.

<sup>16</sup> Homeownership for Lower Income Families (Section 235), A HUD Handbook”, FHA 4441.1, p14

<sup>17</sup> Ibid. p. 239

<sup>18</sup> Silvia C. Martinez, “The Housing Act of 1949: Its Place in the Realization of the American Dream”, p. 472.



homeownership. Buyers did not understand that the defects in the homes would cause their households financial hardship. In believing that the inspections and appraisals were to their benefit, buyers did not suspected that the government would allow the mortgage to be processed if the property were not suitable. The buyers also did not understand that the income, credit, and employment verification were important as proof of capacity to support the financial demands of homeownership.

### **The Emergence of Homebuyer Counseling**

The target population of homebuyer counseling efforts were persons with credit issues prior to purchasing a home (pre-purchase counseling) and those with difficulty paying the Section 235 and 237 mortgages (post-purchase counseling). Those with difficulties in repaying mortgages received counseling which included the determination for the cause of the default, determination of whether or not the homeowner could correct the default, establishment of repayment plans with creditors, foreclosure prevention, and alternatives to foreclosure.<sup>19</sup> Non-profit and social service agencies were appointed as administrators of the counseling programs as opposed to increasing HUD-FHA responsibility by adding the counseling function.

Appropriation for counseling in the FY 1972 Senate budget was for \$3.25 million. It was the only year that housing counseling was funded. The appropriated funds were used to fund 31 counseling agencies in 20 cities to perform delinquency and default counseling. The rate of default for mortgages in the Section 235 program was high and the hope was that with counseling, fewer mortgages would go into foreclosure. The remaining monies were used to fund 2 studies – to study the effectiveness of pre-purchase counseling efforts and to develop a training program for agency staff.<sup>20</sup> There was no provision for pre-purchase counseling which would have provided mortgagors with information during the purchase decision-making process.

Despite the lack of funding, private agencies provided pre-purchase counseling voluntarily with no cost to the client. HUD certified new and existing agencies to provide counseling service for Section 235 and 237 clients. Although the process was lenient, only 63 agencies had received HUD certification by 1970. The agencies that applied were hoping that funding would be appropriated in the future and that the certification would add credibility of their agency among funders, prospective mortgagors, lenders, and housing developers.<sup>21</sup>

By 1972 there were 300 counseling agencies; 200 HUD certified and 100 non-certified. Among the 300 agencies, 94 assisted more than 50 low-income families. Agencies who counseled over 100 families were rare. Clients of these agencies sought counseling in money management skills and advice during the purchase process. Few agencies

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<sup>19</sup> Housing Counseling Program, Department Staff and Public and Private Nonprofit Agencies”, Handbook 7610.1 REV -4, p. 3-3 and 3-6.

<sup>20</sup> Rachel G. Bratt, p 257-258.

<sup>21</sup> Ibid. p. 261.

provided direct, advocacy, or referral service.<sup>22</sup> Levels and quality of service varied greatly due to the lack of funding and standardization of training.

Housing counseling for pre-purchase clients consisted of the following topics:

1. Housing Selection
2. Fair Housing Laws
3. Qualification for HUD subsidies
4. Budgeting for Mortgage Payments
5. Money Management
6. Housing Care and Maintenance
7. Referrals to community resources
8. HUD mortgage insurance and assistance programs, including interest subsidy programs
9. How to apply for a HUD insured mortgage
10. Purchase procedures including closing costs
11. Alternatives for financing the purchase
12. Real estate terms
13. Rights and responsibilities of persons who own single-family<sup>23</sup> housing—including cooperatives and condominiums.<sup>24</sup>

The content and administration of this information varied by the organization providing the counseling.

A study surrounding counseling efforts was performed by OSTI, Inc. concluded that while the range of services provided was inadequate to serve the need of low-income homeowners, counseling was an effective process for educating these households. Families receiving pre-purchase counseling were better prepared for homeownership. They encountered fewer financial problems due to defects in their older homes. Counseling agencies that provided home inspection services and quasi-legal services that reviewed purchase agreements had the greatest level of client success in making mortgage payments in a timely manner. Consumer protection services and advocacy helped the lower income clients spend less money on home maintenance through providing better pre-purchase inspections and, therefore, clients were less likely to incur problems with the mortgage payment.<sup>25</sup>

As a result of the study, HUD created the Information Advice and Assistance program in 1974 to provide homeownership counseling services. The responsibility of the HUD counselor was limited to directing the client through the purchase process. It was not consumer-oriented in program delivery. The program was to provide services for purchasers of HUD acquired properties. The counseling session was a one-hour group

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<sup>22</sup> Ibid. p. 261-262.

<sup>23</sup> HUD recognizes 1-4 family dwellings as single family when they are owner occupied.

<sup>24</sup> "Housing Counseling Program, Department Staff and Public and Private Nonprofit Agencies", Handbook 7610.1 REV-4, p. 3-3

<sup>25</sup> Ibid. p.263.

presentation on purchase procedures, property care and maintenance, financing home ownership, home management, budget and debt management, referral services, resale, recertification, and alternatives to foreclosure.

The time allotted was insufficient to allow session participants to fully grasp the information. There was no coordination within other areas of HUD to upgrade the condition of foreclosed properties with serious defects. The delivery of counseling services did not conform to best-practice principles available during that time. Best-practice indicated that successful counseling required several hours with each client as demonstrated in the Buyer's Agent Program in the San Francisco area<sup>26</sup>. HUD did not have enough staff to execute the program. Private agencies were doing a better job serving the low-income client.

The HUD Section 235 program was considered a failed effort in assisting low-income households in becoming homeowners. In 1975 the U.S. Commission on Civil Rights found the FHA used the Section 235 program to perpetuate racially segregated residential patterns in metropolitan areas. As a result of these discriminatory practices, the Home Mortgage Disclosure Act of 1975 (HMDA) was legislated to require lenders to report government-backed and conventional mortgage loans by census tract to document lending patterns<sup>27</sup>. By 1979 approximately 18% of the mortgages had been foreclosed or assigned compared to 6% of FHA 203 (b) mortgages. HUD 235 loans insured after 1976 in a modified Section 235 had a lower default rate. The modified HUD Section 235 mortgage had higher downpayment requirements, higher interest rates, required a higher qualifying income, and was restricted to the purchase of new homes.<sup>28</sup>

While the Section 235 and 237 mortgages began to open homeownership to low and moderate income and minority households, central city neighborhoods still did not have financial institutions within their boundaries. All residents within these neighborhoods traveled miles to participate in mainstream banking services. As a result of the disinvestments in central city communities, the Community Reinvestment Act of 1977 was legislated

### **The Community Reinvestment Act of 1977 (CRA)**

The Community Reinvestment Act of 1977 is legislation that requires banks and other financial institutions to serve all areas from which they draw deposits. While financial institutions had disinvested themselves from low-income and minority communities and had not provided loans and mortgages to these communities, the institutions continued to take deposits in the form of savings and checking accounts and life insurance policies from the residents of these communities. CRA requires that these institutions invest in these communities through regular lending activities as well as through participation in community investment by providing financial assistance in development activities. Failure to comply with the regulation results in the possibility of denial of applications

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<sup>26</sup> Ibid, p. 264

<sup>27</sup> Sylvia C. Martinez, p.474.

<sup>28</sup> Michael W. Carliner, "Development of Federal Homeownership Policy, p.313-314

for expansion or merger by financial institutions. CRA activities are taken into consideration when approving these applications. Community groups and other organizations can challenge the proposed merger or acquisition based on performance in their community.<sup>29</sup>

Initially, community groups did not use their power to challenge financial institution mergers and acquisitions. In turn financial institutions were not active with compliance activities. The change in the financial services market in the mid-1980's changed the way financial institutions and community groups viewed mandatory CRA agreements. Rapid mergers and acquisitions as well as applications for interstate banking, the decline of the savings and loan banks caused lending institutions to participate more in CRA activities. Until 1988, only 8 bank applications were denied due to inadequate CRA compliance. Community advocates began to challenge the financial institutions on CRA compliance.<sup>30</sup>

Most CRA agreements covered the bank's commitment to support home mortgages in low-income areas. Forms of support included special products with lower than market interest rates, lower down payment provisions with private mortgage insurance support, minimum origination fees, and eligibility standards that reflected the community. The new mortgage products were crafted by the financial institutions or provided as a participating lender in federal and state mortgage programs administered by the VA, FHA, and Massachusetts Housing Finance Administration (MHFA). Agreements also carried housing activity support such as loan counseling, lending discrimination testing, loan review, and access for community residents to buy foreclosed property.<sup>31</sup>

Monies were provided to small developers and non-profit organizations to build and substantially rehabilitate affordable housing. The properties developed for homeownership were sold at favorable prices. This gave low income and minority households the option of purchasing quality homes in the neighborhoods where they currently live.

CRA forces lending institutions to provide financial services in underserved communities. As a result of this legislation, a source for funding homeownership education and counseling programs was developed. Homebuyer counseling is a requirement for most low/moderate-income mortgage products as well as many state and federally sponsored mortgage products with a down payment lower than 20% of the purchase price. Many financial institutions support non-profit agencies in their efforts to educate buyers and existing owners on homeownership issues. Support may be financial through grants to the organization or in-kind by providing lending personnel as course instructors and expert guest speakers.

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<sup>29</sup> Alex Swartz, "From Confrontation to Collaboration? Banks, Community Groups, and the Implementation of Community Reinvestment Agreements", p. 631.

<sup>30</sup> Ibid, p.633

<sup>31</sup> Ibid. p. 634

## **Legislation in the 1990's**

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 set numerical goals for the purchase of loans by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) to finance mortgages for low- and moderate-income families and in central cities. As a method to increase minority homeownership, Fannie Mae instituted an initiative in 1998 to lower mortgage costs and downpayment requirements.<sup>32</sup> Because of their requirement of homebuyer education for mortgage approval, Fannie Mae and Freddie Mac develops homebuyer education materials to support self-study for first time homebuyers as well as provides financial support to assist the efforts of non-profit and government agencies for homebuyer education and counseling.

Despite Fair Housing legislation, CRA, and secondary housing goals, discrimination during the home purchase process persisted. In 1994, President Clinton issued Executive Order 12892 requiring all federal agencies involved in housing activities insure that their programs were administered affirmatively. As a result, the Interagency Task Force on Lending Discrimination was created in 1994. The agencies included were the Department of Justice, HUD, the Treasury, the Federal Reserve Board, the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Federal Trade Commission, the National Credit Union Administration, and the Office of Federal Housing Oversight. The task force issued a Policy Statement on Discrimination to outline actions that constitute discrimination. The statement outlines actions that are blatantly discriminatory but also requires that policies and practices that applied uniformly for all applicants which would exclude a disproportionate share of protected class members, may constitute unlawful discrimination.<sup>33</sup> An example of this practice is the requirement of all assets must be in a documented in a financial institution. For many immigrant borrowers, money is saved in informal groups. As a result, informal savings groups are recognized as a legitimate way to save for a home.<sup>34</sup>

Through CRA agreements, financial support from Fannie Mae and Freddie Mac, as well a legislation mandating anti-discrimination policies, many financial institutions continue provide financial assistance to non-profit organizations for homebuyer counseling for lower income and minority individuals. Despite limited financial support for counseling efforts, HUD continues to plays a role. HUD certifies non-profit organization through an affiliation process and provides limited support for the organization's counseling efforts.

## **The Homebuyer Counseling System**

HUD's support of counseling agencies is granted through the affiliation process. To have counseling efforts supported by HUD an agency must:

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<sup>32</sup> Gregory D. Squires and Sally O' Connor, Color and Money, p.10-11

<sup>33</sup> Ibid, p.11-12

<sup>34</sup> See Chapter 3 for more on this topic.

- Function as a private or public nonprofit organization. This status must be demonstrated by compliance with section 501 (c) (3) of the Internal Revenue Code approval to support its nonprofit status.
- Have functioned for at least one year in the geographical area the organization proposed to work.
- Have at least one year's counseling experience.
- Have an independent audit of its financial records for the 12 months preceding the application.
- Have an established record keeping system.
- Have sufficient counseling resources including funding (HUD approval neither includes or guarantees HUD funding in the future), staff, and capacity to provide counseling in the language of the clients they serve.
- Have a working knowledge of HUD programs and the local housing market. This knowledge includes the rental market and the public housing system.
- Have a working relationship with community resources.
- Meet state and local requirements.
- Have facilities that are located in the community of the target population
- Provide privacy for counseling sessions
- Provide accessibility by locating services near public transportation, having regular operating hours, and have ease of access for elderly and disabled person. Meeting with persons with special accessibility needs in an alternate location is acceptable.<sup>35</sup>

HUD uses this system to meet its counseling program objectives in providing housing counseling services and outreach to potential first time homebuyers, for those eligible for assistance for Homebuying and rental assistance programs. The goal is o help these persons avoid foreclosure and eviction. By delivering counseling services in this manner, HUD avoids the disruption of services due to lack of funding appropriations, as they do not promise funding. HUD includes national, regional, and multi-state entities as well as local organizations in the network of counseling providers.

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<sup>35</sup> "Housing Counseling Program, Department Staff and Public and Private Nonprofit Agencies", Handbook 7610.1 REV -4, p. 2-1 thru 2-4.

In Massachusetts, there is a system of statewide entities that provide HUD affiliation by creating membership organizations. MassHousing and Citizens' Housing and Planning Association are statewide affiliates. While they do not provide counseling services, they provide forums by which smaller local organizations can create a network of nonprofit organizations, government support, and financial institutions, provide education for counselors, set statewide counseling standards, and advocate for affordable housing policy.

Smaller local organizations apply for membership with the statewide organizations thereby obtaining HUD affiliation. Most of these organizations do not perform the wide range of counseling services required by HUD, but usually perform pre-purchase counseling only. Through these statewide organizations, the local organizations may receive a portion of HUD funding when it is available. This does not exclude the local organizations from seeking HUD affiliation directly from HUD. Some local organizations do apply for HUD Counseling Agency approval and participate in the activities of the statewide membership organization

## **Conclusion**

Housing policy did not begin by providing support to lower income persons. While the federal government is willing to support lower income homeownership through mortgage subsidies, necessary education is provided by legislation requiring financial institutions to provide services for underserved communities. Other resources for funding housing counseling efforts are Fannie Mae and Freddie Mac.

In the next chapter, the steps to purchase a home, lender requirements and carriers to homeownership are discussed. There are many aspects of homeownership that a buyer must understand to develop a level of comfort in purchasing a home.





## **Chapter 3: Homebuying Steps, Lender Requirements, and Barriers**

### **Introduction**

To adequately assist clients, the homebuyer counselor must understand and be able to convey the steps in the home purchase process as well as the rules and regulations that govern the process. There are real and artificial barriers and challenges in completing the purchase process. This chapter describes the steps to purchasing a home, including those beneficial to the homebuyer that are not mandatory to the formal process, and barriers that many low and moderate income individuals face while purchasing a home.<sup>36</sup>

### **The Buyer's Steps to Purchasing a Home**

#### **1. Research Mortgage Lenders**

In the traditional home purchase process, the steps are straightforward. When an individual decides to purchase a home, the first step he may take is to research mortgage lenders and types of mortgages to determine the amount of money that is available for the home purchase. This research includes whether to obtain a mortgage through a bank, credit union, or a mortgage broker. Each type of lender offers different mortgage products that are advantageous to a variety of personal financial and purchase scenarios.<sup>37</sup> Small banks may offer as few as two or three mortgage products while large banks and mortgage companies may offer as many as forty mortgage products. The lender will determine the purchase capacity and the mortgage product for which the individual is most suited using the household's savings, income, current debt, and credit history. Many lenders in Massachusetts urban areas also provide estimated purchase capacity based on housing type. As many two- and three family homes are available, the purchase capacity would be higher because of potential rental income.

#### **2. Complete Homebuyer Education Program**

If the buyer visits a lender as a first step, the lender may recommend enrollment in a homebuyer education program. These programs give potential buyers a general overview of what is expected from them financially before searching for a home and attempting to obtain a mortgage. The program will educate the buyer on the process and provide information on how to work with real estate professionals while purchasing a home. Some programs provide one-on-one counseling in addition a classroom experience to assist the potential buyer in determining readiness to purchase and to make recommendations based on the buyer's financial situation. After successful completion of the program, the buyer may be eligible for mortgage products available to assist low and moderate-income individuals in purchasing a home. These products have reduced

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<sup>36</sup> The processes as described in this paper reflect regulatory practice in Massachusetts. While regulatory practice may vary by state, the purchase process is fundamentally the same.

<sup>37</sup> See examples in Table 3. 1.

interest rates and other features that increase the amount of money that the lower income individual may spend on the home purchase.

### **3. Create Home Purchase Budget**

The experience with the lender and the homebuyer education process will assist the buyer in determining a home purchase budget. Factors to be taken under consideration are the homebuyer's personal expenses, grants received from completing a homebuyer education program<sup>38</sup>, financial gifts from family members toward the home purchase price, and housing type desired. The lender will then pre-qualify or pre-approve the buyer for a specific mortgage amount. Approval of the final mortgage will be dependent on the actual home the buyer will chose to purchase. The buyer may decide that the purchase capacity as determine by the lender will exceed the buyer's personal capacity to comfortably repay the mortgage. When the lender determines purchase capacity, he does not consider personal expenses such as car insurance payments, childcare expenses, or any other financial commitment not listed on the buyer's credit report.

The buyer may also decide that his purchase capacity is greater than that determined by the lender. In that situation, the buyer may provide additional documentation of income or savings or search for a lender who will provide a more favorable analysis of his personal financial situation for a higher purchase capacity.

### **4. Search For a Home**

After determining the home purchase budget, the individual begins the home search. He may chose to work with real estate agents and/or conduct his housing search via Internet in order to find a home. Once a property is found, the homebuyer will present a formal Offer to Purchase and ultimately, sign a Purchase and Sale agreement. These documents, in addition to the deposits that must accompany them, demonstrate the homebuyer's good-faith effort to purchase the property. If a real estate agent is not involved in the home search, the buyer may work with the seller and their attorneys to negotiate the sale. A real estate agent might gain the trust of buyer and will serve as an advisor to assist in completing the purchase of the home. When choosing to accept a real estate agent's counsel, a buyer should understand the real estate agent's role in the purchase process. Most agents are paid for by the seller and have a responsibility to act in the best interest of his client. It may be difficult to act in the best interest of the buyer as well.

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<sup>38</sup> There is a financial benefit to successful completion of homebuyer education programs. For example, the City of Boston offers closing cost assistance of up to \$1,000 for households completing the Homebuyer 101 homebuyer education program whose income is less than 120% of the area median income at the time of purchase. Households earning less than 80% of the area median income are eligible for downpayment assistance of up to 2% of the purchase price. This grant is dependant on the buyer's savings available for downpayment, closing costs, and reserves necessary to cover up to 2 months mortgage payments in emergency situations.

**Table 3.1 Mortgage Product Examples**

<b>Mortgage Product</b>	<b>Income requirement Maximums dependant on Household Size</b>	<b>Purchase Requirement</b>	<b>Benefits</b>
Soft-Second <sup>39</sup>	100% Area Median Income	Home purchase restricted to specific MA cities and towns First Time Homebuyers only	Reduced Interest Rates Low Downpayment (5%) Reduced Closing Costs No Points No Mortgage Insurance Higher Credit for Rental Income Purchase Rehabilitation Option
MassAdvantage <sup>40</sup>	\$100,100	Restricted to MA cities and towns Purchase Prices range \$95,900 - \$492,000 depending on housing type and area of MA Available to all homebuyers in federally targeted areas <sup>41</sup>	Reduced Interest Rates Low Downpayment (3%) Favorable Underwriting Ratios Purchase Rehabilitation Option
MassAvantage 100 <sup>42</sup>	\$100,100	\$95,900 - \$311,000 First Time Homebuyers only	Single Family and Condominiums only 100% Financing (97% first mortgage 3% second mortgage)

<sup>39</sup> <http://www.mahahome.org/softsecond.shtml>

<sup>40</sup> [http://www.masshousing.com/sf/sf\\_eligibility.htm](http://www.masshousing.com/sf/sf_eligibility.htm)

<sup>41</sup> Federally targeted communities are areas designated as distressed due to past disinvestments. Boston, Chelsea, Everett, Fall River, Lawrence, Lynn, North Adams and Somerville are areas targeted in Massachusetts. Buyers willing to invest in these communities are given financial incentives to do so.

<sup>42</sup> [http://www.masshousing.com/sf/sf\\_eligibility.htm](http://www.masshousing.com/sf/sf_eligibility.htm)

## **5. Retain an Attorney to Review Purchase Documents**

While retaining a real estate attorney to assist in the purchase process is a critical step, many buyers dismiss this step as an unnecessary expense. The attorney reviews the purchase agreements and condominium documents to make recommendations based on the buyer's situations and the condition of the property. In multi family homes with existing tenants, the attorney will review existing leases to advice on the continuing tenancy with the occupants. If any agreement is breached during the purchase process, the attorney can advise or take necessary action

## **6. Hire a Home Inspector**

After an Offer to Purchase is signed by both buyer and seller, most counseling programs, attorneys, and lenders will recommend that homebuyers hire a home inspector to evaluate the condition of the property. The home inspection allows the buyer to fully inspect the home with a professional who will educate the buyer on the condition of the house. Home inspections are recommended for both new and old properties. While this is an important step and would reflect home purchase best practice, it is only required for FHA and USDA mortgage products.

## **7. Return to Lender for Mortgage Commitment.**

The next step involves the buyer returning to the mortgage lender to obtain a mortgage. As pre-qualification amounts vary by lender for identical financial situations, the buyer should return to the lender who gave the original mortgage pre-qualification. The lender will determine the mortgage product that will be sold to the homebuyer. Mortgage products for which the buyer eligible would be determined by the buyer's income, assets available for downpayment and closing costs, property type, property value, property location, and mortgage products serviced by the lender. The lender commissions an appraiser to determine the value of the home, researches the title of the property for proof of ownership and liens, and confirms the buyer's financial position prior to approving the mortgage.

## **8. Complete the Purchase Process**

When the lender is satisfied that all of the paperwork has been completed, he approves the mortgage. The buyer is notified and now is able to prepare for the closing of the transaction. The buyer is referred to the lenders attorney to prepare the final paperwork. In Massachusetts, the buyer is required to purchases homeowners' insurance prior to the closing. The buyer must have the money available for closing costs that could be as much as 5% of the purchase price and prepare any paperwork that the lender determines is necessary. The buyer and the lender's attorney meet to sign the mortgage note and settle outstanding closing costs which include title insurance, prepaid interest, lender's attorney fees, mortgage origination cost, application fee, credit report fee, and appraisal fee. The home purchase is complete.

The 8-step process appears straightforward but for low-income and/or minority individuals who may not understand the consequences of their commitments during this process, it is fraught with pitfalls. Many of these individuals are not aware of financial requirements in the purchase process, their rights under the Fair Housing Laws, predatory practices, and regulations that dictate the relationships between real estate professionals and themselves. Unfortunately there are many obstacles that discourage low-income and minority individuals in their search for a home. In addition to the contractual obligations of the real estate professionals, the lender will also have requirements that the individual must consider when purchasing a home.

## **Lender Requirements**

Most mortgage lenders require similar qualifications from individuals planning to purchase a home. Factors in mortgage eligibility are income, savings, debt, and credit history.

### **1. Income**

A potential buyer must have sufficient income to pay the mortgage that he is requesting. This income can come from a variety of sources such as full and part time employment, pension income, Social Security payments, welfare benefits<sup>43</sup>, unemployment income, disability income, alimony income, child support, or rental income from a 2-4 family home to be purchased. Proof of this income must be provided through employer verification forms, proof of receipt of income, tax returns for the previous three years, and two years of employment history.

### **2. Savings**

A lender will require that the potential buyer have sufficient savings or assets to make a downpayment, pay settlement costs, and have an emergency reserve of one to three months mortgage payments. The lender will consider savings and checking accounts, certificates of deposit, investments, loans secured by 401K, IRA, and 403B retirement savings<sup>44</sup>, sou sou and partner savings clubs. The lender will verify these funds through financial institution statements, notarized letters, and other supportive documentation.

### **3. Debt**

A lender will verify that existing debt is between 5 % and 10% of gross monthly income. Lenders do not object a prospective buyer having no debt. The lender evaluates monthly debt obligations as reported on the buyer's credit report.

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<sup>43</sup> Lenders may not discriminate based on source of income. They may, however, reject the mortgage based on insufficient savings and assets to pay down payment and closing cost expenses.

<sup>44</sup> While the IRS allows money to be deducted penalty free for the purpose of buying a home or education, taxes must be paid on the money if withdrawn rather than borrowed. If withdrawn, the sale transaction must occur within 30 days of the withdrawal or penalties are incurred.

**Table 3.2 Mortgage Eligibility Chart**

<b>Requirement</b>	<b>Source</b>	<b>Verifiable Documentation</b>
Income to support monthly mortgage payment	Full and Part time Job Pension Social Security Welfare <sup>45</sup> Unemployment Income Disability Income Alimony Child Support Rental Income from 2-4 family home.	Two years employment history supported by W-2 forms or 1099 forms Three years Federal tax forms with all schedules Employer Verification Form All other income need supporting documentation
Savings for down payment, closing costs, and reserves <sup>46</sup>	Savings Accounts/Checking Accounts Certificates of Deposit Investments Loans secured by 401K, IRA, and 403B retirement savings <sup>47</sup> Sou Sou and Partner Savings Clubs <sup>48</sup>	Verification of Deposit form 2 – 4 months bank statement Notarized statements for savings clubs Supporting documentation for investments
Existing Debt repayment	Total minimum monthly debt payments on installment and revolving debt must range between 5 and 10% of gross monthly income	Credit report
Credit History	History of on time debt payments for the past 12 months On time rent and utility payments <sup>49</sup>	Credit report with credit score of 620 or better Letters of reference from landlords and utility companies

<sup>45</sup> Lenders may not discriminate based on source of income. They may, however, reject the mortgage based on insufficient savings and assets to pay down payment and closing cost expenses.

<sup>46</sup> Many mortgage products require that there is money left in savings for 1-3 mortgage payments.

<sup>47</sup> While the IRS allows money to be deducted penalty free for the purpose of buying a home or education, taxes must be paid on the money if withdrawn rather than borrowed. If withdrawn, the sale transaction must occur within 30 days of the withdrawal or penalties are incurred.

<sup>48</sup> Many immigrants continue their methods of savings from their country of origin. Immigrants from Asia, Africa, and the Caribbean tend to save money in groups rather than in banks. Each member contributes the same amount of money each week and each member has a turn at using the money.

<sup>49</sup> Utility bill payment history can be used if the client does not have any other credit history.

## **4. Credit History**

A lender will evaluate a prospective buyer's credit report for an on-time debt payment history especially for the past 12 months. This can be evaluated through the credit score or manually. In absence of a credit report, the lender will review utility payment records and rent receipts for on-time payment. While the requirements are clear and consistent across lenders, these items may pose challenges and barriers for many lower, moderate-income, and minority buyers.

## **Barriers and Challenges**

### **1. Costs**

In Massachusetts, the average value of a home is \$192,694<sup>50</sup>, the third highest in the United States. It is difficult for low-income and minority buyers who qualify for mortgages less than \$150,000 to find a home. Due to rapid increases in housing prices, many properties that would have been purchased at an affordable price and rehabilitated by a low-income buyer are now purchased by real estate investors, minimally updated, and resold at a healthy profit. This practice, known as flipping, tends to happen in neighborhoods where the seller may not understand the true worth of his property or is selling the home to avoid foreclosure of the property.

The most likely properties available for purchase by low and moderate-income buyers are homes sold in affordable housing lotteries, and 2 or 3 family homes where the rental income is available to supplement the mortgage payment. These opportunities are limited and these homes are in great demand.

There were at least dozen affordable housing lotteries in Boston in 2002. These properties were either new or substantially renovated. Housing types available were single-family homes, two-family homes, and condominiums. The prices ranged from \$140,000 to \$220,000. There were hundreds of qualified buyers who submitted their information to participate in these lotteries but there were fewer than 100 winners.<sup>51</sup>

Affordable housing lottery properties are developed using federal, state, and local funding. There are contractors in suburban communities that are building affordable homes for ownership under Massachusetts Chapter 40B<sup>52</sup> funded by public and private monies. As these entities reduce their investment during tough economic times, fewer

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<sup>50</sup> U.S. Census Bureau, Census 2000.

<sup>51</sup> Housing lotteries for first time homebuyers were conducted by the City of Boston's 1<sup>st</sup> Home Program, Veterans Benefit Clearinghouse, Urban Edge Community Development Corp, Neighborhood Development Corporation of Jamaica Plain, Neighborhood Development Corporation of Grove Hall, Quincy Geneva/New Vision Community Development Corporation, Tent City Community Development Corporation, and Codman Square Neighborhood Development Corporation.

<sup>52</sup> Massachusetts Chapter 40B is the "anti snob zoning" law. Towns with fewer than 10% affordable housing units are required to allow developers to build housing that includes affordable units under a comprehensive permit. These developments are usually constructed at a higher density than the town usually allows for new home development.

properties will be completed. This will stall the availability of the number of new affordable units in the near future.

## **2. Income and assets too low to qualify for the mortgage**

To qualify for a mortgage, a lender expects the buyer to have sufficient income to cover the mortgage payments each month. Income consist of salary, pensions, alimony, child support, bonuses, commissions, government payments such as Veteran Administration payments and Social Security payments, interest, and rent payments from the property to be purchased. It is expected that approximately 33 % of gross income would be spent on the mortgage payment<sup>53</sup>. An additional allowance of 5% gross monthly income is calculated for the repayment of other debt. For some buyers, this would result in a mortgage payment that is less than their current rental payment. Renters who do not have a rental subsidy may be paying as much as 50% of their gross income or more on rent.

Savings is the other part of the financial equation. In addition to downpayment and closing costs, many loans targeted toward low-income buyers have a reserve requirement. The buyer must have at least one mortgage payment remaining in savings after all other closing costs are paid. As low-income buyers struggle to pay the required expenses of the home purchase, there is little remaining for moving expenses and initiating utility services.

## **3. Insufficient savings for due diligence activities**

Savings are also necessary for the “optional” items in the home purchase process. While a home inspection is not required, the inspection is crucial in giving the buyer a professional opinion on the home that is being purchased. Home inspectors educate the buyer on the condition of the home, may uncover flaws that the buyer may not have noticed in the first tour of the home, and helps the buyer plan for repairs and upgrades in the future. In a new home, the inspection can uncover items that need to be completed before the contractor releases the home for sale. Not all new homes constructed in Massachusetts have a post-construction warrantee period so it is best for the buyer to have all things completed and inspected before completing the purchase.

When a buyer has insufficient savings, he does not retain the services of a real estate attorney to assist him in the process. The attorney would assist the buyer in determining if the home has too many flaws to purchase or in incorporating negotiating points for repairs into the purchase and sale agreement. If there is a breach of agreement during the purchase process, the retained attorney is available to manage the process of refund or restitution. Many low-income buyers do not hire a real estate attorney and often seek the lender’s attorney for advice. This relationship tends to happen late in the purchase process and cannot provide the same due diligence services that an attorney can provide at the beginning of the purchase transaction.

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<sup>53</sup> The mortgage payment includes principle, interest, taxes, and private mortgage insurance. When the home is a condominium, it will also include the condominium monthly maintenance fee.



In some situations, there is enough savings and income for the mortgage payment but it is not documented. While there is more flexibility for buyers who save in partner savings clubs<sup>54</sup>, undocumented income is generally unacceptable. Undocumented income can result in problems with the Internal Revenue Service and mortgage lenders to not want to be involved with a potential property lien situation. It is recommended that the buyer begin the process of documenting savings and income if he wants to purchase a home.

#### **4. Credit issues**

When a lender reviews credit history, she will order a scored credit report that will take into consideration the buyer's credit as reported to at least two of the three major national credit reporting agencies by creditors. The score considers repayment history, debt/credit ratios, lines of credit, and public record debt such as suits, judgments, liens, and child support. The score is also impacted by type of employment, length of credit, and other factors used from the credit application.

Perfect credit is not a requirement to obtaining a mortgage. It is necessary, however, for credit history to reflect that an honest attempt is being made to honor existing debt obligations before a lender will approve a buyer for a mortgage. Unfortunately 69 % of all adults believe that perfect credit is a requirement for mortgage eligibility<sup>55</sup>. This belief may cause buyers who are eligible for standard mortgage products with favorable interest rates and settlement terms to seek lenders who may not encourage them to repair their credit history but will steer the buyer to mortgage products with higher, variable interest rates and high settlement costs.

A negative factor for many low and moderate-income buyers is impaired credit<sup>56</sup>. It takes at least one year of on-time debt payments to convince a lender that the buyer is credit worthy of obtaining a mortgage. Some lenders require two years of "clean" credit before approving a mortgage. For some buyers, it is a simple matter of paying bills on time. For other buyers, it will take months of communication with credit bureaus, collection agencies, and creditors. This process can be very discouraging for the buyer as may take many conversations and letters to resolve old issues.

It is helpful when the buyer is educated on the components of the credit report. Many buyers are motivated with the support of a credit counselor who will handle the difficult interactions with creditors. Credit counselors are employed by non-profit agencies such as Consumer Credit Counseling Services. A credit counselor might also provide payment services that can assist the buyer with making on time debt payments. There is a

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<sup>54</sup> A partner savings club is a group of individuals who save as a group. Each week one member will have the use of the money. Example: if there are 10 individuals in the group depositing \$100 in the club, each week a member of the group would take a turn to have the \$1000 until all members have taken a turn. Partner savings clubs can be documented by a notary and are acknowledged as savings by lenders who offer Fannie Mae and community mortgages.

<sup>55</sup> The 2002 Fannie Mae National Housing Survey.

<sup>56</sup> Impaired credit can be defined as having late credit payments within the past 2 years, too much credit, or unpaid credit.

income dependant, sliding scale fee for the services of a credit counselor Many individuals have used this support method to repair credit.

Some buyers do not have reported credit histories. In the past, this would have prevented lenders from granting a mortgage but alternative credit is now accepted. If the buyer has rent payment, utility bill payments, or car insurance in her name, the lender will use letters of recommendation from these sources to grant a mortgage. Without this type of informal credit or a traditional credit history, low and moderate-income buyers will not be able to obtain a mortgage.

## **5. Discrimination**

A major concern among low-income buyers is possibility of facing racial and social class discriminatory practices during every phase of the home purchase process. There are concerns of being treated fairly by the lender as well as by the real estate agent during the home search. The Fair Housing Law in Massachusetts forbids housing discrimination based on “race, color, religion, sex, affectional or sexual orientation, marital status, handicap, familial status, ancestry, or national origin, class, sex, sexual orientation, and familial status.”<sup>57</sup>

Low-income and minority buyers may experience discrimination in the home search. While real estate agents must adhere to the Fair housing laws, the process can be made more difficult lending to the frustration of the buyer. Many real estate agents refuse to serve clients who do not have a pre-qualification or a pre-approval letter. This is not a legal requirement and is constructed to determine purchasing power before the agent works with the buyer. If the buyer is nervous about the lending process, this step can be intimidating.

The low-income or minority buyer may be offered property that is overpriced based on its condition. One of my housing counseling clients entered into a purchasing agreement for a house that was in such poor condition, the lender intervened after the appraisal and demanded that the home repaired to comply with health and safety codes before the closing. The lender is a local bank whose loan officers tend to be supportive of minority and low and moderate-income buyers. Many mortgage companies may have denied the loan or ignored the obvious problems as they are less invested in the community. Mortgage companies are also exempt from community reinvestment activities.

When considering barriers and challenges, it can be difficult at times to separate those associated with race and those that are associated with social class. Where the barriers are financial or information based, social class might have precedence over race. However, studies have shown that the mortgage acquisition process for minority borrowers continues to pose a struggle regardless of income.

According to the study titled ‘Changing Patterns: Mortgage Lending to Traditionally Underserved Borrowers & Neighborhoods, 1990-2001’, performed by the University of

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<sup>57</sup> Massachusetts Fair Housing Act

Massachusetts at Boston shows racial and lending disparities in Boston neighborhoods.<sup>58</sup>  
Findings from the study include:

- The number of loans to black borrowers was slightly higher in 2001 than in 2000, but lower than in any year in the 1990's. Blacks, who comprise 21.4% of Boston households, received 11.5% of the mortgages in 2001.
- Lending to Latinos rose for the fourth year, reaching the highest level on record. Latinos make up 10.8% of the city's households, but received 7.5% of all home loans.
- The black denial rate in Boston, which had been twice the white rate, rose to 2.73 times the white rate in 2001.
- The Latino denial rate, typically 1.5 times the white denial rate, jumped to 2.25 times the white rate in 2001.
- The Asian denial rate, generally close or even below the white rate, increased to 1.55 times the white rate in 2001.

One factor contributing to these findings is the lack of commitment among mortgage companies to provide suitable mortgages for low-income people. Mortgage companies tend to provide conventional mortgages for middle-income buyers or jumbo mortgages for upper middle incomes and above. Mortgages for lower income individuals tend to be of a sub prime nature that would take the property value and owner's equity in the property into consideration in addition to the capacity to repay the loan.

Studies performed by the Federal Reserve Bank have concluded that the income of the minority borrower was not necessarily a reason for mortgage denial. The poorest white applicant was more likely to be approved for a mortgage loan than a black applicant in the highest income bracket.<sup>59</sup> Marginal white applicants are more likely to receive coaching during the application process so that the final application is approved while minority applicants are rejected.<sup>60</sup>

The appraisal of the prospective property is critical in a lender's decision to grant a mortgage. An appraiser will use recent sales of comparable property in the neighborhood to determine the value of the home. Comparisons are subject to the appraiser's bias for or against the neighborhood. An appraiser can be influenced not to provide favorable appraisals in areas that the lending institution by which he is hired deems as undesirable. A low appraisal is a suitable reason for denying a mortgage and it is used frequently by lending institutions that do not want to lend in the central city. According to the Federal

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<sup>58</sup> Study results as published in "Study: Lending bias persists – Difference between black and white mortgage denial rates widens.", Thomas Grillo, *The Boston Sunday Globe*, December 29, 2002

<sup>59</sup> Melvin Oliver and Thomas Shapiro, p.20

<sup>60</sup> Gregory D. Squires and Sally O'Connor, p.13

Reserve study, appraisals tend to be more favorable in low-income white neighborhoods than in the wealthy black neighborhoods.<sup>61</sup>

## 6. Predatory Practices

In Massachusetts, an African American buyer is more likely to be offered a sub prime mortgage than any other racial category regardless of income and credit history.<sup>62</sup> These mortgages result in the payment of higher interest rates (2% above average mortgage interest rates), higher settlement costs (6% or more of the purchase price), pre-payment penalties (as much as 6 months extra mortgage payments if the loan is paid within a specified time), and balloon payments (demand that the entire principle be paid at the end of an abbreviated term). Some mortgages have terms so unfavorable that they are considered predatory as the lender is extending credit based on the value of the home and not the borrower's capacity to repay. These unfavorable mortgages are offered during the purchase process as well as in subsequent refinancing. The individual can borrow fewer dollars for the home purchase or in refinancing in this scenario because much of the payment is attributed toward fees and interest.

Unfortunately, these lenders are widely advertised on television, radio, and in minority weekly newspapers as lenders who are willing to approve the mortgage regardless of the current financial situation. Working with a mortgage lender can be intimidating for buyers who do not fully understand their personal financial situation or are unfamiliar with working with professionals at the bank. As banks become larger due to consolidation, increased usage of electronic banking, and centralization of loan operations, a buyer is less likely to be familiar with the person taking their mortgage application. Buyers are afraid of rejection. If the buyer is not adequately prepared by having all of the mandatory personal paperwork, a lender may not continue to pursue the client.<sup>63</sup> The guaranteed "yes" and the possible referral by a friend or family member will stop the buyer from researching alternatives.

## 7. Fear

Many low-and moderate-income individuals are afraid to begin the home purchase process. Through hearing of negative experiences of family and friends, many lower income and minority are deterred from attempting the purchase process because of fear. Fear is a barrier to attempting to purchase as well as to providing information to a real estate agent or lender in a timely manner. Reasons given for fears are:

- **Potential loss of income.** If a lower income individual loses employment, he is not likely to have reserves that will allow him to make mortgage payments

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<sup>61</sup> Ibid. p.20

<sup>62</sup> Thomas Grillo, "Increase in 'predatory' lending risk for Hub minorities, study suggests", The Boston Globe, January 21, 2003.

<sup>63</sup> (W-2's, tax returns, bank statements, etc.)

until another job is found. The loss of a home is viewed as a more serious situation than having to find a less expensive rental.

- **Potential of major repairs.** As a renter, tenants are not responsible for repairs. A homeowner is responsible for repairs to his unit as well as any rentals units that he may own. The prospect of a major repair to a roof or heating system can be overwhelming to someone who has always been a renter.
- **Potential rejection in the mortgage process.** An individual may fear rejection in the mortgage process. He may hear the stories of friends and neighbors and feel that it is not worth going through the effort of searching for a home only to be refused a mortgage in the end.
- **Potential of purchasing a “lemon”.** An individual may fear the unwitting purchase of a home in such poor condition that he may never have enough money to rehabilitate it properly.
- **Potential of language barriers.** A non-English speaking immigrant may fear that he will not be understood and that he will not understand crucial information during the home purchase process. The language barriers can impact him any time during the process from the housing search through the closing.<sup>64</sup>

These fears are real to a lower income individual because it is likely that he knows someone who has experienced the reality of these issues firsthand. Many of these fears can be abated with proper information and support throughout the purchase process.

## 8. Lack of Clarity During the Purchase Process

For lower income individuals, there are many confusing factors in the home purchase process. There can be confusion with the roles and responsibilities of the real estate professionals, the mortgage, and the mortgage settlement costs. It is important that the individual receive appropriate and clear information to avoid financial problems in the end of the purchase transaction.

Real estate professionals such as real estate agents, home inspectors, and appraisers have state licensed positions that are guided by a code of ethics. Real estate agents and brokers must always give the prospective buyer a full option of lenders, home inspectors, and appraisers if the prospective buyer inquires. Prospective buyers become confused in the relationship with the real estate broker or agent, forgetting that most agents work for the seller. In the end the prospective buyer may surrender his options to those dictated by the real estate broker. Agents are required to present a written disclosure to the prospective buyer to clarify if he is a seller’s agent, a buyer’s agent, or a dual agent.

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<sup>64</sup> 2002 Fannie Mae National Housing Study, p. 11

Many agents do not present this disclosure and is in violation of the real estate agents' code of ethics.

Home inspectors are hired by the prospective buyer to assist in determining the condition of the home. A prospective buyer should chose a home inspector independent of the real estate agent's and the lender's opinion from a full list of state licensed home inspectors. A home inspector may have decided not to participate in the licensing processed and are performing unauthorized inspections. Prospective buyers may not understand that the license is for the buyer's protection.

Most lower income buyers do not understand the difference between mortgage products and associated settlement costs. As products may differ depending on the mortgage lender, the buyers' income, debt, credit history, savings, and type of home, the process can become very confusing. Settlement and closing costs differ based on mortgage product, cost of the property, and timing of the closing in relation to tax and interest payments. Asking the appropriate questions in advance of completing applications may be critical in the prospective buyer having enough money to complete the transaction.

## **Conclusion**

When an individual is not confident in his capacity to find and purchase a decent home, barriers are exposed in each step of the process. Counselors cannot assist when potential homebuyers do not have sufficient income to purchase a property, but can offer assistance with marginal credit. Homebuyer counselors work with clients to help them to avoid many of the unethical practices that they face because some real estate professionals prey on the homebuyer's ignorance and fears. Education in the home purchase process and a connection with trusted real estate professionals improve an individual's confidence. The counselor becomes a bridge to connected individuals to real estate agents who can be trusted to be honest and helpful

When an individual is confident in purchasing a home, the process is straightforward. Confident individuals, according to Vada Hill, Senior Vice President and Chief Marketing Officer of Fannie Mae, are those who are comfortable with approaching the real estate agents, lenders, and other professionals in the home purchase process regardless of defined barriers. These individuals believe that they will be assisted when necessary if confronted with an obstacle. He would usually find a real estate broker, a mortgage lender, a real estate attorney to review necessary paperwork, and a home inspector to evaluate the condition of the home. This individual would work through the process with the real estate professionals supplemented with advice from friends and family until ultimately purchasing a home. Due to higher eligibility incomes for first time homebuyer mortgage products in the Boston area, individuals are also more likely to complete a first time mortgage program to become eligible for these advantageous mortgages.

In the following chapter, I discuss the professionalism of the homebuyer counselor. A good counselor helps move an individual from not confident regarding the home

purchase to a confident, informed buyer. What training is available or required to prepare the counselor for assisting the buyer through these barriers and challenges? How are counselors supported in their efforts to assist the clients, the prospective homebuyer?





## **Chapter 4: The Counselor**

### **Introduction**

Homebuyer counseling is the one-on-one interaction between buyer and counselor. The purpose of counseling is to educate the homebuyer of the steps and requirements involved in the purchase process and to present the best purchase options available for the client's personal situation. As the relationship between client and counselor develops, mutual trust and respect grows. The client begins to feel that he is not alone in the purchase process and he becomes more confident in working through the real and perceived barriers in the home purchase process. Many clients seek out certain counselors based on referrals by family, friends, and neighbors.

In this chapter I will discuss the homebuyer counselors. Such individuals work in non-profit agencies, lending institutions, and municipal government serving low and moderate-income and minority individuals as advisors throughout the home purchase process. What types of organizations provide counseling for homebuyers? How does one prepare to become a homebuyer counselor? How do they choose to assist clients informally? What are the tools, relationships, and strategies, formal and informal, needed to assist clients in the successful purchase of a home?

### **Types of Organizations Providing Counseling**

Organizations provide counseling as part of a broader mission of creating affordable housing and homeownership opportunities in Massachusetts. Typical types of organizations providing counseling and counseling support are community development corporations, housing advocacy organizations, and municipal governments. These organizations work in collaboration to provide a forum for establishing best practices in homebuyer education and counseling and to advocate for affordable homeownership opportunities for their clients.

#### **Community Development Corporations**

A community development corporation would provide homeownership counseling to facilitate increased investment in the community. As its housing production provides homeownership opportunities within its service area, the organization is interested in having community residents become homeowners there. Having a counseling program gives the organization an opportunity to prepare residents for ownership and increases the likelihood that the resident will be able to take advantage of purchase opportunities.

#### **Housing Advocacy Organizations**

Massachusetts Affordable Housing Alliance is an example of a housing advocacy organization that provides counseling services. This organization advocates politically for affordable housing production and financial assistance through special programs for low and moderate homebuyers. Counseling activities allow MAHA to prepare clients for

homeownership as well as increase the organizations' first hand knowledge of the needs of low and moderate-income buyers. While counseling services are based in its office in Boston, clients are welcome to request counseling from anywhere in the state.

### **Municipal Governments**

Cities and towns that sponsor homebuyer education programs may also provide counseling service to residents of their neighborhoods in conjunction with affordable housing purchase programs. Cities such as Boston, Cambridge, Somerville and Chelsea, have build in the capacity for limited counseling services. As a government agency has a larger constituency than a community organization, client sessions are limited in time and frequency.

### **Collaboration Among Counseling Agencies**

In December 1996 Citizens Housing and Planning Association formed the Massachusetts Homeownership Collaborative to create standard for homeownership pre-purchase counseling, create a joint curriculum to serve as a guideline for pre-purchase education programs, and to provide technical assistance for homeownership counseling agencies.<sup>65</sup> Massachusetts Homeownership Collaborative serves as a homeownership counseling intermediary agency certified by HUD to service agencies that provide homebuyer and homeowner counseling. Agencies can become affiliates under CHAPA's Homebuyers Counseling certification by applying for the Collaborative Seal of Approval<sup>66</sup>. The Collaborative Seal of Approval affiliation requires

1. Each homebuyer training session must include a minimum of 8 hours of homebuyer education in a class setting
2. Availability of one-on-one counseling sessions for graduates of the homebuyer training sessions. Participants are not required to attend a one-on-one session to successfully complete the course.
3. Use of an approved curriculum that includes best practice education materials as well as testing to determine an individuals' comprehension of class materials.
4. Trainers experienced in homeownership issues. Members of the collaborative are required to attend at least one CHAPA sponsored training session each year.

The Seal of Approval requires its non-profit and municipal members who perform homeownership counseling to subscribe to a Code of Ethics. The code requires that the

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<sup>65</sup> Information regarding the Citizens Housing and Planning Collaborative Homeownership Collaborative was documented in a telephone interview with Karen Wiener, Director of CHAPA Homeownership Initiatives, March 20, 2003.

<sup>66</sup> The CHAPA Homeownership Collaborative Seal of Approval was established in 2000.

counseling agency provide the buyer with information that will assist in informed, voluntary decisions. Funding sources used for homebuyer education and counseling must be disclosed so that the buyer may understand bias to specific programs. Member organizations are monitored and critiqued by Collaborative volunteers to insure quality of instruction. The Seal of Approval must be renewed every two years. As of March 2003, 53 non-profit organizations and municipal government agencies participate in the Seal of Approval program.

The Homeownership Collaborative consists of financial institutions, government agencies, and non-profit organizations whose goals are to share best practice in homeownership counseling and to standardize education requirements for first time homebuyers. Financial institution members provide funding and education support for homebuyer education programs and information regarding mortgage products but are not allowed to offer classes. Municipal government agencies provide homeownership education, counseling, and government-sponsored homeownership programs. Non-profit organizations provide education and counseling as well as perform lending activities<sup>67</sup> and homeownership opportunities.

Collaborative meetings allow time for networking before and after the sessions. This allows member organization to meet new people in related organizations who can share information and resources. Collaborative membership facilitates the homebuyer counselor's ability to establish a formal, employer-sponsored network.

## **Homebuyer Counselor Certification and Training**

There are no standards in training or certification requirements for homebuyer counselors when performing pre-purchase counseling. Counselors have received their training in a variety of avenues. The method of training appears to have little impact on the client's perception of a counselor's professionalism and the capacity for the counselor to provide the assistance and advice necessary to purchase a home. The educational components used to preparing an employee to become a homebuyer counselor include courses, personal experience, prior professional and educational experiences, on the job training, and networking.

### **Courses**

Neighborhood Reinvestment Corporation has courses in homebuyer counseling, foreclosure prevention, and reverse mortgages counseling. In addition there is a course to train individuals to coordinate and facilitate pre-purchase education seminars titled "Train the Trainer". Counselors employed by non-profit organizations affiliated with Neighborhood Reinvestment Corporation have been trained and have acquired

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<sup>67</sup> Urban Edge Community Development Corporation, NOAH, and Nuestra Comunidad are Neighborhood Reinvestment Corporation NeighborWorks lending sites that offer mortgages to graduates of their first time homebuyer programs. These agencies have maintained their Homebuyer Collaborative Memberships. Presentations are monitored by Collaborative members to insure that program graduates are aware of financing choices.

certification in these classes. These classes are offered in locations around the United States but rarely in Massachusetts. HUD recommends that counselors who advise clients on foreclosure prevention and reverse mortgages acquire certification in these topics. While these classes provide certification, not all non-profit organizations require that the course be completed before providing counseling sessions with clients.

Citizens' Housing and Planning Association (CHAPA) provides informational seminars and trainings on homeownership topics through an annual conference and through its' Homeownership Collaborative. Topics have included how to work with disabled buyers and specialty mortgage products. Neighborhood Reinvestment Corporation was hired to provide the "Train the Trainer" program in Boston reducing the costs for organizations to send counselors. The Homeownership Collaborative is working with Consumer Credit Counseling Services to provide twelve hours of professional credit training for counselors.

The University College of Citizenship and Public Service at Tufts University offers a Management and Community Development Institute (MCDI) for one week annually. Non-profit organizations enroll counselors and other employees for training in various aspects of urban community work and to enhance their managerial skills. Counselors would enroll in courses targeted to the sociological aspects of counseling as it pertains to urban community populations.

On a more infrequent basis, affordable homeownership information seminars are offered by state and municipal agencies. MassHousing and the Massachusetts Department of Housing and Community Development offer information sessions on mortgage products and affordable housing funding and construction. The City of Boston has annual information sessions with non-profit organizations that offer homebuyer education seminars. Counselors find these gathering beneficial to remain current with mortgage products and housing development.

While there is no formal training, there are many options for learning techniques in counseling and acquiring factual information on topics such as credit repair and mortgage products. There are materials to take back to the workplace for future reference. Courses give counselors the opportunity to learn in a formal environment with other professional performing the same tasks.

### **Personal Experience**

Many counselors have learned the purchase process through personal experience. As low and moderate-income buyers, they know first hand the challenges of purchasing a home and the discipline required to keep it. Florence Hagins, the Assistant Director at Massachusetts Affordable Housing Alliance (MAHA), spoke about her home purchase experience.

I was the first person to receive a soft second loan. Before finding out about the soft second loans, I had been trying to get a mortgage at different banks in Boston

because loan officers said that I did not make enough money. I found out about the soft second mortgage sponsored by MAHA and Massachusetts Housing Partnership (MHP). Tom (Callahan) was able to help me through the process. I applied for the mortgage at Shawmut Bank. I got the mortgage. I was so grateful that I felt that I should give back to my community by helping others realize their dreams of homeownership<sup>68</sup>.

The capability of individuals to reflect and expand on their personal efforts to purchase a home, repair credit, or help a family member restructure their financial affairs is a form of education difficult to replicate in a class room. The counselor can empathize with clients and understand the steps that a client would have to make to successfully move to homeownership.

### **Prior Professional Experience**

There is no college degree or curriculum that prepares one to be a homebuyer counselor. Some counselors have limited college experience. Others who have attended college have studied business management, marketing, information systems, and urban planning. One interviewee completed a master's level divinity program. The experiences that assisted counselors the most were past employment experience.

Homebuyer counseling is rarely the first employment position that counselors hold. Homebuyer counselors have backgrounds in other home purchase professions. It is common to meet a counselor who's past professional experience included employment at a financial institution. Two counselors interviewed had experience in mortgage lending prior to becoming counselors. Lending experience enabled the counselors to understand the mortgage approval process and familiarize themselves with the challenges of low and moderate-income individuals face when applying for a mortgage.

As a former underwriter and loan processor, Andrea Laing became an expert in mortgage application document preparation. Underwriters are responsible for reviewing the loan application and accompanying employment, income, credit, and savings verification documents to determine whether or not a mortgage will be approved. This experience prepared her to assist clients in preparing letters to explain unusual circumstances such as gaps in employment and delinquent payment histories. Most clients do not realize that these letters present an opportunity for the underwriter to understand their application better enhancing chances for mortgage approval.

Eva Osorio was a former community organizer at the same organization for which she is a homebuyer counselor. That job helped her get acquainted with families in the neighborhood and with community issues. She was able to build and maintain relationships by preparing families for homeownership as her employer, Urban Edge Community Development Corporation, as they developed and rehabilitated housing in the neighborhood for homeownership opportunities.<sup>69</sup>

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<sup>68</sup> Information acquired through an interview with Florence Hagins, March 25, 2003.

<sup>69</sup> Information acquired during interview with Eva Osorio, March 26, 2003.

The past employment experiences of counselors have the characteristics of customer service, public relations, the capacity to interpret rules and regulations, and the necessity of relating to and working with other professionals to accomplish a task in common. These are some of the skills required to be an effective homebuyer counselor.

### **On the Job Training**

In a field where employees have a variety of education levels and employment experiences, on the job training is necessary. Each organization has other responsibilities performed by the homebuyer counselor in addition to that of counseling. These tasks vary by the type of organization for which the counselor is employed. Counselors employed at non profit organizations have duties that include the marketing of affordable housing developed by the organization, providing technical assistance for small businesses in the organization's service area, managing the organization's other financial and homeownership educational efforts, and organizing advocacy efforts for affordable homeownership on behalf of low and moderate income homebuyers. Counselors employed by municipal government provide lender workshops to disseminate information on municipal government purchase assistance for low and moderate-income buyers, processing the purchase assistance documents, and managing counseling contracts with non-profit organizations. CRA loan officers process loan applications for their financial institutions and establish community connections.

The variety of duties performed by counselors enhances their knowledge of the complexities in the purchase process. Many tasks add insight into the purchase process that benefits the counselor's interaction with clients. Understanding the real estate development process can assist counselors in explaining the timing involved in the purchase of a new home and in the purpose of restrictions in the purchase of an affordable home. CRA loan officers have extensive mortgage product information and access to bank attorneys and appraisers. Counselors whose duties include advocacy have been instrumental in informing the legislative process on affordable mortgage products and housing creation.

These experiences enhance the value of the individual counselor to the organization and have a positive impact on other counselors in her network. As counselors assist clients in resolving complicated issues in the purchase process, other counselors and professionals in the network are called for information, advice, and strategies. Networking in this context is not an organization sponsored activity but the interaction of professionals who were able to connect on a personal as well as a professional level.

### **Networking**

Networking is the exchange of information or services among individuals, groups, or institutions.<sup>70</sup> Group and institution level relationships form the arena in which formal networking takes place. As employees, a counselor will participate in events sponsored

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<sup>70</sup> [www.m-w.com/cgi.bin/dictionary](http://www.m-w.com/cgi.bin/dictionary)

by organization in which her employer is a member. For example, Urban Edge CDC is a member of trade organizations such as Neighborhood Reinvestment Corporation, Citizen Housing and Planning Association, and Massachusetts Association of Community Development Corporations. Employees are encouraged to attend events sponsored by these organizations. These events provide a formal opportunity to meet others in counseling as well as other related professions.

Group networking takes place on a committee level within the trade. Committee membership allows counselors to form working relationships with other individuals that will be able assist the counselor as she works with her clients. Participating on a committee places the counselor in an “expert” position among other members of the trade organization. It gives the counselor an opportunity to share knowledge gained during the counseling experience and use it to impact policy and training for other housing professionals.

The networking relationships that have the most impact on counselors are formed by informal contact. Counselors may form individual networks by continuing to connect with other professionals in trade or group organizations. Relationships are formed with expert speakers who present information at the counselor’s organization. During a seminar coordination process, a counselor may correspond frequently with a speaker and may form a more personal relationship allowing more informal, personal contact. Over time a counselor may add attorneys, real estate brokers, home inspectors, lenders, credit counselors, appraisers, developers, community leaders, and politicians to her network.

Important factors in creating a network within which a counselor may function at her optimum capacity is respect for and trust in members of her network. Network members are not only a source to which a counselor can refer clients but also a trusted colleague with whom she can resolve challenging scenarios when counseling a client.

## **Counseling Skills**

Effectiveness as a homebuyer counselor is heavily dependent on the capacity of relating different professional and sometimes personal experiences. For example, a counselor may have done work to repair a personal credit situation for herself or a family member. This experience may teach the counselor techniques that exceed those taught in a credit-counseling course. Homebuyer counselors work with many different professionals to assist clients in finding the best possible situation. Counselors must understand enough about lending, construction, debt, credit, real estate, and taxation to help clients navigate the home buying process. Translating the complex requirements of the mortgage market to the low-income population can be a difficult process. Not only will the counselor have to acquire the skills necessary to complete the task, but also support is need from management and funders.

One of the most important disciplines that a homebuyer counselor requires is the utilization the resources at hand to research the answers to questions asked by the client. Using other counselors, the Internet, books, and articles provide a wealth of information

that helps the counseling agency respond to client questions. The questions tend to repeat themselves so it is worth the time it may take to research the answer the first time.

In addition to having the capability to research questions that a client may ask, it is helpful to read articles, journals, and reports on low-income homebuyer issues. Mortgage products and housing opportunities change frequently. Reading and understanding literature on tax implications, debt reduction, and credit problem solving have been particularly helpful to counselors in educating clients.

By attending workshops and seminars, the counselor is able to receive current information and training and is able to interact with other professionals in the industry. This activity requires the management support in providing funding and time for attendance. Workshops are available on topics such as homebuyer counseling training, specialty mortgages products sponsored by lenders and by MassHousing, on predatory lending practices, tax preparation, and Fannie Mae initiatives. It is also an opportunity to network with practitioners in government, lending, and other non-profit agencies.

Understanding the affordable housing market as well as the real estate market in the area is a useful tool. Knowing the developers involved as well as project managers provides information on where the next units will be completed and the timelines involved with applying for housing lotteries. It may be necessary to educate clients on affordability covenants, income guidelines, and lenders working with affordable housing products, to make the process smoother.

Acquiring information from various organizations that support affordable homeownership such as the Neighborhood Assistance Corporation of America (NACA), the Association of Community Organizations for Reform Now (ACORN), and the Massachusetts Affordable Housing Alliance (MAHA), The Massachusetts Housing Partnership, and the City of Boston's Home Center. These organizations have pre-purchase education and mortgage products that can be layered together to provide lower downpayment requirements and mortgage interest rates for the client, increasing purchase capacity.

Counselors must have the capability to attract clients. Counselors in non-profit organizations are responsible for informing community residents of housing education and counseling opportunities available at their organization. Clients rarely call because of information seen on the Internet. Lenders who offer low and moderate-income mortgage products may refer clients for pre-purchase education and counseling. As there is no budget for radio, television, and major newspapers, community outreach and word of mouth are the most successful ways to inform prospective clients in the organizations' territories. Madeline Vega feels that her former public relations background helped make Nuestra Comunidad's Home Center successful.

I used my background in public relations to advertise the Home Center, prepare marketing materials, and work with other organizations to get the word out. (The



organizer) helped by getting the word out to the neighborhood. It was very exciting but it was a lot of work.<sup>71</sup>

Three counselors interviewed had backgrounds in mortgage lending and underwriting. They use their experience as a guide in managing counseling sessions with clients. Using their knowledge of financial institutions, loan products, and loan packaging, these counselors prepare clients for the mortgage process. Former lenders and underwriters were the most likely to tell a client that they were not ready to purchase a home due to insufficient income and poor credit situations.

Networking is the most critical skill in this industry. Most counselors would be lost without the Rolodex. Much of the on-going training is on the job. As many organizations have only one or two counselors, it is vital to maintain contact with colleagues in other organization to learn the industry news and to talk through strategies for clients. Relationships with lenders, attorneys, real estate brokers, individuals in government agencies assist in quick problem resolution for clients

## **The Counseling Process**

The role of the homebuyer counselor is to understand the home purchase process and regulations well enough to assist the buyer in becoming eligible to obtain a mortgage. The key to assistance is to help the buyer with timing the purchase steps and providing appropriate documentation. The counseling process has five steps; outline pre counseling activities, review income and assets, evaluate credit history and current debt, review mortgage products and purchase options, and review responsibilities of homeownership. Each steps is designed to help a client understand his financial condition as it relates to the mortgage lending process and gives insight on homeownership responsibilities.

### **1. Outline pre-counseling activities**

Before counseling begins, most counselors would recommend that the client complete a pre-purchase homebuyer education program. Homebuyer education gives the counselor and the buyer a basis for conversation. In preparation for the counseling session, the client must accumulate his financial statements, W-2 forms and current pay stubs, and credit reports. The completion of this task prepares the client for completing a mortgage application as well as demonstrates to the counselor that the client is willing to perform necessary tasks to purchase a home. The client may not necessarily be involved in the purchase process at the time of counseling.

### **2. Review Income and Assets**

During one-on-one counseling sessions, the counselor will address concerns that a client has regarding his financial situation. The first requirement to be addressed is income. If the client does not have sufficient income to purchase a home, it is not possible nor ethical to help him purchase a home that will cost more than he can afford to repay. The

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<sup>71</sup> Information acquired during an interview with Madeline Vega, March 26,2003.

client is likely to be approved to purchase more than he can afford as the lenders' formulas use gross income as a base and consider only debt as reported on the credit report and not the buyers' household expenses.

Mortgage lenders require documented proof of savings during the mortgage approval process. The counselor and the client will discuss bank, retirement fund, and investment statements. Many immigrant clients are involved in private group savings programs that will require documentation from a notary. Some clients may have money that the Internal Revenue Service has in its possession through unclaimed refunds. Some clients have not filed tax returns. If a taxpayer does not owe taxes, the IRS does not pursue the individual to refund overpayments. Counselors educate clients on the fact that they can file a return for each of the past three years and claim any refunds due without penalty.

Many clients request one-on-one counseling to address undisclosed income and undisclosed savings. Financial institution statements and tax documents must support all savings and income listed on the mortgage application and verification forms. The counselor reviews the benefits and ramifications of filing tax forms and depositing the money in a financial depository to have the funds considered for mortgage eligibility. While counselors help map out plans, they are prevented from sending the client to a specific resource. As in all counseling issues, some clients follow the plan; others do not.

After the review of past tax situations, counselors review other benefits that the client may have overlooked such as employer pre-tax programs for childcare and medical expenses. These account are deducted from the paycheck using pre-tax dollars but must be used in the year in which they are deducted for paying child care or medical expenses. This is earned income on which clients do not pay taxes and therefore provides money for savings.

### **3. Evaluate Credit History and Debt**

The next topic of discussion will be the evaluation of the client's credit history. Counselors first determine that all information is accurate on the credit report and discuss any problem items with the client. The counselor may show them how to complete the forms that accompany the credit report to dispute incorrect and obsolete information. The client may have a history of late payments and accounts charged to profit and loss by merchants<sup>72</sup>. As lenders will not sign mortgage closing documents when the borrower has charge off's that have not been paid, these accounts will have to be paid in full before applying for a mortgage<sup>73</sup>. Some of the problems of late payments can only be addressed by having the client begin to make on time payments and prove to lenders over the next 12 months that the client is handling debt responsibly. Tools such as on-line and automatic bill payment are discussed as possible ways to help clients get back on track with on time payments.

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<sup>72</sup> If a debt has not been paid after six months repeated attempts at collection, the account is "charged off" to profit and loss by the lender. Charge offs remain on the credit report for at least 7 years. Many clients try to wait out the seven years so as not to repay the debt.

<sup>73</sup> For mortgage criteria, please see Table 3.2.

#### **4. Review Mortgage Products and Purchase Options**

Clients that may have started working with lenders before attending the counseling session may find that they are receiving less than favorable mortgage terms. Counselors are familiar with a wide range of mortgage products that have lower rates and settlement cost, stretching the client's purchase capacity. The purpose is not to help the client purchase a home that would endanger his financial well being, but to create a stable and affordable mortgage payment.

Clients request information on affordable housing purchase options. When housing lotteries for affordable homeownership are available, clients have an opportunity to purchase a home at a government-subsidized price. The lottery process gives equal opportunity to all individuals who enter the process but individuals who are prepared to apply for a mortgage and are informed of the purchase process tend to have an easier purchase process when selected. Although some counselors serve as marketing representatives for their organization's affordable housing sales, this level of counseling is not considered a conflict of interest. Buyers for such properties are selected by lottery and the counselor does not have any influence in the order in which buyers are selected. All counselors direct clients to all available lotteries for which the client qualifies to improve their chances of purchasing an affordable property.

#### **5. Review Responsibilities of Homeownership**

Counselors review the responsibilities of homeownership with clients. Regardless of income and credit situations, if a client is not willing to assume the responsibility of the care and maintenance of a property, and the financial management necessary to make on time mortgage payments, it is better that the client remain a renter. It is easier for the client to make this decision before entering the purchase process to prevent future foreclosure.

Organizations determine how much time is to be spent on counseling session. Non-profit organizations do not place a limit on the time spent with a client or the number of visits a client may have. Counselors are limited in time due to other work responsibilities but are free to schedule the sessions as time allows. Madeline Vega, formally of Nuestra Comunidad's Home Center, has counseled clients for two to three years before the clients were in a position to obtain a mortgage and had the opportunity to purchase a home. Municipal government counselors were restricted to one hour. Pre-purchase counselors for the City of Boston's Home Center are allowed one hour per client. While some clients received a one-hour sessions, others required and received more assistance.

#### **Counselors assist clients informally.**

Counselors are required by their organization to counsel anyone who requests the service. The City of Boston restricts its counseling efforts to city residents only. Counselors often assist clients beyond the boundaries of what is required by employers. It is not unusually for a counselor to come to the office early or stay late to accommodate a client's

schedule. This assistance is not provided to circumvent rules and regulations established to protect buyers and lenders, but to adapt the process to special circumstances. A counselor decides to assist based on self-determined factors. These factors include asking themselves the following questions.

- **Does the client have the willingness and opportunity to pay the mortgage if a product is found to suit the financial situation?** If the answer is no, a counselor will not attempt to enlist other professionals. Counselors are well aware of the problems when clients over extend themselves financially because many of serve as foreclosure preventions counselors. If the client really does have the capacity to repay the mortgage, the counselor would intervene on his behalf.
- **Has a client who has the willingness and capacity to pay a mortgage tried to purchase a home and has hit a dead end in his efforts?** Clients may have explored every possible avenue in obtaining financing. Some clients may need additional assistance due to language barriers and special financial circumstances. Counselors may be able to provide insight to lending institutions that may help the client receive a mortgage approval.
- **Has the client been treated unfairly during the purchase process and requires someone to speak or act in his behalf?** Low-income and minority homebuyers are often victims of predatory practices by lenders and other real estate professionals. These practices include disallowing standard contingency agreements on purchase contracts, discouraging home inspections, unfavorable mortgage terms, and other misleading practices.

Most counselors will extend extra effort for anyone who is putting forth a good faith effort on their own behalf. If fraud is suspected, the counselor will discontinue counseling efforts. It is not worth risking relationships and reputations to assist in suspicious activity. Assisting clients through challenges is a critical service that counselors provide. Some of the counselors had challenges in their own purchase process and want to help clients as someone had helped them.

## **Conclusion**

Preparing clients for homeownership is an effective way to teach individuals who were not part of the financial mainstream about personal finances. The financial tools that the clients acquire in the sessions are the first steps in assisting them to organize finances and take advantage of opportunities that were previously out of reach. The education also dispels myths about financial management and about financial institutions. For many clients, the counseling session is the first opportunity to receive assistance in personal financial management.

In the next chapter I will discuss the interaction between the counselor and client. As a client reveals his financial situation, it opens the potential for a counselor to assist him with direction and information to reach his homeownership goal.



## Chapter 5: Situations of Counselor and Client Interactions

### Introduction

Counseling requires the formal process of requesting the same information of all clients. However, the answers to these questions may contain information that may prompt “special handling” by the counselor. The formal process requires counselors to defer these situations to lenders, attorneys, and credit counselors and the counselor would refer the client to a professional in her network. The counselors interviewed frequently step out of the expected formal position and handle the situations informally in very creative ways.

There are situations in which counselors have used innovative ways to assist clients in transforming a complex financial situation to one more acceptable to lenders. Beyond skills, training, and connections, what entrepreneurial qualities are employed in these interactions? How do counselors use their training, network, and experiences to assist clients in challenging situations? This process is only achievable with the cooperation of the client. Much of this work involves other professionals working in the purchase process.

Homebuyer counselors frequently intervene and advocate for clients during the purchase process. By questioning predatory and unethical practices, the counselor’s intervention prevents unfavorable, long-term financial problems. Some cases require the counselor to advocate for changes in policy regarding lending requirements and affordable housing lottery rules.

### Entrepreneurial Qualities

Although all of the counselors interviewed are employed by organizations, they each have action qualities typical of entrepreneurs. These qualities cause the counselor to act independently of a specific job title and to extend the boundaries of job performance. When evaluating the actions of these counselors, these seven common qualities were observed.<sup>74</sup>

1. **They are individuals that make a significant difference.** There are clients who now own homes because of the assistance of a counselor. That assistance may have been as great as ongoing support in repairing a poor credit history or as small as a short conversation with a recommendation to try a different lender or mortgage product. These clients now have an asset that will improve the financial picture for their families.
2. **They are creative and innovative.** Counselors seek new ways to assist clients amidst the rules and regulations of the home purchase process. As many clients do not “fit” into the standards of the formal rules, counselors are challenged daily

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<sup>74</sup> Bolton, Bill and Thompson, John, Entrepreneurs: Talent Temperament, Technique, p. 22

to find a variety of solutions that will help clients obtain their goal of homeownership. The accumulation of solutions shapes the manner counselors view a client's situation.

3. **They spot and exploit opportunities.** Using information learned in a class, through a conversation, or through a personal experience, a counselor can see and opportunity in a client's situation that would be overlooked by someone who completely goes by the rules. As you will see in later a later section, many situations where counselors intervened could have been viewed as impossible to resolve.
4. **They find the resources required to exploit opportunities.** A counselor will work with a client to pull together whatever resources are available to improve the client's situation. Resources may include knowledge of lenders with favorable mortgage products, listings of affordable lotteries, or a simple, safe and fast track for credit repair.
5. **They are good networkers.** It is impossible for a counselor to know everything that is required to resolve the most complex of client issues on her own. There are tax issues, legal issues, home inspection and construction issues, and ever-changing lending requirements and mortgage products. Pulling together a team of qualified professionals who are respected and capable is critical to the counselor's practice. These relationships facilitate brainstorming sessions, email information groups, and other forums by which expert advice may be transferred.
6. **They are determined in the face of adversity.** Not every situation has a positive outcome. Despite all efforts to the contrary, some clients don't purchase homes. A counselor must continue to help a client although he may not always be successful in obtaining a home. There is also something to be learned by situations that did not work well.
7. **They manage risks.** Counselors vary on the amount of effort spent on clients who have too many issues to manage in short counseling sessions. Certain combinations of issues such as poor employment history and poor credit are indicators that a counselor's extreme efforts should be concentrated elsewhere as the client is not ready for the responsibility for homeownership.

The willingness and capacity to perform these activities have a major impact on the manner by which a counselor will chose to resolve a client's challenging situation. These actions combined with training and experience provide sound resolutions to issues.

### **Ground Rules for Informal Assistance**

As mentioned in the previous section, the number of clients seeking counseling and a counselor's other job responsibilities limits a counselor's time with a client. A counselor may perform a quick evaluation of a client's situation to determine if informal help will



make a difference. A counselor will look for the following conditions to determine if informal help can be provided.

**Client must have the opportunity to purchase a home.** Counselors do not have the time or the resources to shop for houses. The factor that makes the informal invention interesting is that it has to be done quickly to complete a purchase.

**Client must follow directions given by the counselor.** The client has a lot of work to do to make the informal work on his behalf. While the counselor may give recommendations on where to go and what to do, if the client does not follow directions in a timely manner, most of these acts of intervention will not work. A counselor may make a phone call on the client's behalf to resolve an issue but will not complete forms or go with the client to handle the issue.

**The assistance will not cause foreseeable financial problems for the client.** It is not a goal to place a client in a situation where the intervention put the client in a worse financial position than when he began the purchase process. Counselors will not recommend long-term additional employment or debt restructuring that will cause the client to overextend himself financially, or mortgages that will have excessive closing costs.

**The intervention must be a legitimate tactic.** It is not the counselor's objective that a client misrepresents his financial situation on a mortgage application. That would be considered fraudulent practice. Even if it were never detected, it could cause the client to suffer financial harm in the future by placing him into a situation where he may not have the resources to pay a mortgage.

## **The Structure of Assistance**

When analyzing the process of how a counselor performs acts of assistance, the situations of intervention have the common thread. During a counseling session the counselor has the client's financial information before her. A counselor will look for sufficient income, an appropriate level of savings and assets, and a favorable debt situation or an opportunity to create one.

### **Income evaluation.**

The counselor may see an opportunity within the client's documentation for intervention. In considering income the counselor will ask about all possible sources of income. In addition to a standard paycheck, lenders will include disability pensions, reliable child support, reliable alimony payments, investment dividends, and interest to determine mortgage eligibility. A counselor may advise that a client document previously undocumented income from small, informal businesses by filing the information on current or past tax returns to reflect the undocumented income. A client may not realize these facts and may leave out critical financial information necessary to qualify him for a mortgage

Madeline Vega tells the story of a disabled client who lived in a house with her boyfriend. For reasons unknown to Madeline, the boyfriend left her client. The boyfriend gave the client \$30,000 and disappeared. The lender foreclosed the mortgage due to nonpayment and held an auction. The client was afraid that she would have to move and that she would not be able to find an affordable living situation. In evaluation of the client's financial situation, she disclosed to Madeline her income from Social Security for her disability. Madeline helped the client in finding a lender with the soft second mortgage product that accepted SSI as a source of income and would provide a lower interest rate on the mortgage. Coupled with the \$30,000 available, the client was able to purchase the home at the bank's foreclosure auction with payments far less than it would have cost her to move and rent an apartment.<sup>75</sup>

### **Savings and Asset Evaluation**

There are a number of opportunities available to assist a client in increasing assets for mortgage eligibility. There are five sources of assets; grants, gifts, savings, and items and documents that have value. The lender will require that these sources be accompanied with documentation.

**Grants.** Some municipal governments offer financial assistance to low and moderate-income homebuyers in the form of downpayment or closing costs assistance. For example, The City of Boston provide up to \$1000 in closing cost assistance and up to two percent downpayment assistance for buyers who fit the income criteria<sup>76</sup>. Banks who participate in this program offer an additional \$300 closing costs assistance. The client has to complete a pre-purchase education class. There are other grants associated with other purchase programs. The key to this assistance is that it use is limited to using participating lenders and not all loan officers know about the programs or are willing to fill out the required paperwork.

A client had applied for a mortgage at a participating lender. The client submitted the required pre-purchase homebuyer education certificate and expected to receive closing costs assistance provided by the City of Boston. The client was also eligible for a separate mortgage product that provided 2 percent down payment assistance. The loan officer completed the required paperwork for the downpayment assistance program but decided without informing the client that she would not apply for the closing cost assistance. The client discovered that she had to pay more money at the closing than she expected. Close review of the closing documents by the counselor revealed that the expected downpayment assistance was not credited, the lender's matching assistance as provided by the closing cost assistance program was not included, and an appraisal fee paid by the

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<sup>75</sup> Interview with Madeline Vega, March 26, 2003.

<sup>76</sup> Downpayment assistance requires a household income of 80% area median income or less. Closing cost assistance requires a household income of 120% area median income or less.

client was not credited. This resulted in a \$1,100 over payment of costs at the mortgage closing. The client closed without resolving the issues.

Meanwhile, the counselor contacted Andrea Laing. In addition to her counseling role, Andrea was responsible for educating lenders of the downpayment and closing costs assistance provided by the City of Boston and for processing mortgage documents after closing for program compliance. After several unsuccessful attempts to contact the loan officer, the counselor recommended that the client contact the loan officer's supervisor to inform him of the overpayment. This allowed Andrea to work on the client's behalf in having the overpayment refunded.

**Gifts.** Clients may receive monetary gifts from family members to use for the home purchase. Lenders require the giver of the gift supply bank documentation of proof of assets. This is an issue where many minority, elderly, and immigrant clients keep money hidden at home or in safe deposit boxes. In this case gift money has to be seasoned<sup>77</sup>.

A dying elderly neighbor gave a cash gift to a client. It was a large amount of cash contained in a suitcase. After paying for the neighbor's final expenses, there was still "a half of a suitcase of money left." This suitcase was kept in the client's home. There was enough money for a substantial downpayment and closing costs. The counselor recommended that the money be deposited into a savings account in installments less than \$10,000, the amount for which the US Treasury requires special information for cash deposits. The client had to wait until the money seasoned prior to applying for the mortgage.

**Increased savings.** Counselors inform client that lenders require that savings accumulate in savings accounts, checking accounts, certificates of deposits, and other savings vehicles. Through advocacy efforts of organizations in large immigrant communities all over country, lenders also accept savings accumulated in formalized savings clubs. The treasure of the club must present notarized proof of membership for the client and the bank accepts the money as documented savings. A tax refund is also considered as savings. Clients may not have filed tax return documents necessary to receive refunds or may have filed documents incorrectly and are due refunds.

A client missed tax savings by failing to file for the Earned Income Tax Credit (EITC). EITC provides a tax credit of up \$4,000 for individuals and couples earning less than \$34,000. Eligibility should be reviewed for anyone with a child 17 and under.<sup>78</sup> In the review of a client's tax returns it was noted that she had not claimed the EITC. For this client, amending tax returns for the three years prior claiming an eligible grandchild meant a receiving a tax refund of over \$5,000.

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<sup>77</sup> Lenders require that savings for the down payment and closing costs be in a documented account for two to four months. This includes money saved from all sources except savings clubs and tax refunds. The treasurer of the savings club must provide documentation of his participation. The tax return serves as proof of the source of the tax refund.

<sup>78</sup> [http://www.lao.ca.gov/part5b\\_earned\\_income\\_tax\\_credit\\_pi97.html#\\_1\\_2](http://www.lao.ca.gov/part5b_earned_income_tax_credit_pi97.html#_1_2)

Clients who are not ready to purchase can use these additional monies to lower debt, improve credit situations, and increase savings.

### **Debt Evaluation**

Poor credit takes time and effort to repair. A client will not be encouraged to purchase a home until credit issues are resolved. Clients may have a good debt repayment history yet may not qualify for a mortgage due to high monthly debt payments. While loan products vary, most require that debt payments outside of the mortgage not exceed 10% of the borrower's gross monthly income.

A single mother won the opportunity to purchase a single-family home in a Boston housing lottery. Everything was going well until the time came to apply for the soft-second mortgage product. In the evaluations of the mother's credit situation, the loan officer determined that her monthly debt payment in relation to gross monthly income was higher than the loan product guidelines permitted. After a brain storming session with the loan officer and other counselors, Florence Hagins was able to arrive at a solution. One of the debts was refinanced at the mother's credit union to reduce the monthly debt obligation. This new loan created a more favorable debt to income ratio from the lenders perspective. The mother was approved for the mortgage and was able to purchase the house for her family.

This technique allowed the mother to have lower monthly payment on her existing debt allowing her to meet her obligation at a reduced payment and interest rate. There was more money available for the mortgage payment and additional savings.

### **Intervention in the Purchase Process**

A counselor may intervene on behalf of a client if she believes the client is experience unfair or unethical treatment during the purchase process. Typical types of intervention take the following forms.

- **Discourage client from closing on a predatory loan.** Counselors frequently warn clients against working with lenders who have historically provided mortgage money in central city communities with unfavorable terms. Brokers of these mortgage products advertise heavily in minority communities. These mortgages may appear to have a favorable interest rate but add unusually high settlement costs or contain unfavorable terms that the client may not understand. Very few applicants are refused a mortgage with predatory lenders. The perception that these lenders do not refuse anyone makes these mortgages appealing to a client who is afraid that his credit may not be acceptable at a conventional bank. These mortgages tend to lead to financial collapse for low and moderate-income clients. It is better to find a new lender at the last minute than to complete a mortgage transaction with a predatory lender.

- **Encourage client to find a different lender.** In addition to predatory practices, there may be different reasons for a counselor to refer a client to a different lender. Some lenders do not have mortgage products suitable for the needs of low and moderate-income and minority buyers. Lenders who provide Community Reinvestment Act mortgage products that enable low and moderate central city residents to purchase and rehabilitate homes tend to provide mortgage products with favorable closing costs and interest rates.

A common issue is that the borrower is eligible for the soft second mortgage product and the lender does not offer the product. The loan officer may convince the client that they can take the mortgage that he is offering and refinance at a later time to eliminate the private mortgage insurance and reduce the interest rate. The problem with this strategy is that all clients eligible for the soft second loans are also eligible to enter affordable housing lotteries. The affordability covenant<sup>79</sup> required for such properties limits the owner's equity and limits the increase of equity through value appreciation. This renders the loan officer's plan impossible. There are also lenders that do not work with mortgages on homes with affordability covenants and the lenders leave the client without a mortgage after the appraisal process. The counselor must then find another lender who will process the mortgage application quickly so the deadlines in the purchase and sale agreement can be honored.

Some minority clients may experience mortgage rejection even though all components of the application are acceptable. The experience is more likely to occur with a mortgage company as mortgage companies are not required to comply with the Community Reinvestment Act. If a client is eligible for a mortgage, the counselor will refer him to a lender who can process the loan quickly as not to jeopardize the purchase.

Recently, an African American couple told me of their experience of receiving a low appraisal that prevented them from purchasing a home in a Dorchester neighborhood. The 2-bedroom condominium townhouse had the potential for expansion in the attic and basement and was in move-in condition. Its price was comparable to that of homes recently sold around the street where the unit was located. With the low appraisal they were unable to purchase the property.

- **Encourage client to demand a home inspection.** A counselor will remind a client that he is eligible for a home inspection. There are times when a real estate professional will discourage an uninformed buyer from obtaining an inspection on properties in poor condition. Clients falsely believe that the inspection performed by municipal inspectors is in the best interest of the client. Counselors

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<sup>79</sup> Affordability covenants require that the sale of the property is restricted to individuals within a certain income range (usually up to 80% of area median income or below). Properties built or rehabilitated with government subsidies have such covenants. The covenants also restrict the purchase and resale price limiting equity during ownership and the profit to the seller upon the sale of the property.

discourage clients from purchasing new or existing properties without a home inspection by a licensed inspector of their choice. Clients are recommended to attend inspections to ask questions regarding the homes condition.

- **Question appraisals on client's behalf.** Appraisals are handled within the lender's authority. A counselor may have access to the appraiser to question a low appraiser. An appraiser may consider reviewing his documentation to verify that the appraisal meets both lender and borrower requirements. If there were multiple low appraisals on a property, the counselor would recommend that the client find another property.
- **Assist clients retrieve overpayments and refunds.** A counselor may assist clients in claiming refunds for monies overpaid at mortgage closings. As a former underwriter, Andrea Laing is skilled at reviewing loan documents. One of her duties in her work for the City of Boston Home Center was to review mortgage documents after the closing.

A client who Ms. Laing had counseled asked her to review his mortgage documents. Andrea discovered that the client was eligible for a more favorable loan than was received. There was a closing costs assistance grant that was not recording on the HUD-1 settlement sheet that had not been recorded. After contacting the loan officer's manager, Andrea was able to negotiate an \$8,000 refund for the client.

Unfortunately, many clients do not detect these errors nor do counselors review these documents as standard procedure. It was Ms Laing's prior experience, current employment position, connection with the lender, and willingness to assist the client that produced this result.

- **Warning Clients of Adverse Situations.** Even though a client has attended homebuyer education and had counseling sessions, he may be so caught up in the purchase of the house that he overlooks procedures that are designed to protect him. He may have signed a Purchase and Sale Agreement that may require him to keep current tenants or did not specify that work in progress had to be completed. Lenders who were former counselors will often refer that client to an attorney to assist him in resolving these issues before the purchase of the property is complete.

## **Advocacy for Policy Change**

### **Policy regarding Fair Housing Lotteries**

In a counselors work, she may find recurrences of issues that are unfair and unnecessary or issues that can be abused by clients.

A counselor was the marketing agent for an affordable homeownership development. After reviewing applications received for a housing lottery, she noticed that there were professionals applying for low-income housing who qualified in that year. The professionals were not employed the entire year due to recent college graduation. The counselor called the Fair Housing Office that oversees all marketing plans for affordable homeownership units to seek guidance in this situation. Out of this challenge, family size preference was established. This policy gave preference to families over single individuals competing for the same units. Only when the list of eligible families was exhausted would single individuals be allowed to purchase 2 and 3 bedroom units.

This change in policy has given families an advantage in housing lotteries that have larger units appropriate for families. Without this change, many units would not be sold to the intended audience of low and moderate-income families.

### **Policy Regarding Affordable Mortgage Products**

Housing policy as it applies to mortgage products needs to be in constant review. There are times when prices in the housing market far exceed home purchase price limits on affordable mortgage products to the point where there are no homes available in the stated price range. With the decline in mortgage interest rates over the past two years, low and moderate-income clients can afford to purchase a home with a higher price. Florence Hagins, who remains involved with the Soft-Second mortgage product, continues to monitor the housing market and has successfully advocated through her position at MAHA for raises in income limits as well as purchase price limits imposed by this mortgage product.

### **Policy Regarding Affordable Housing Stock**

Counselors employed by non-profit organizations are involved in lobbying and advocacy efforts concerning quality, affordable housing. In their efforts, a counselor may attend state house hearings or participate in a Lobby Day at the state house. A Lobby Day is an event where an organization appeals to its members to come to the state house en masse to meet with state senators and representative to voice their support for an impending bill or budget line item. Issues such as inclusionary zoning, which would increase the number of affordable units built in all cities and towns within the state, and small increases in property taxes to fund affordable housing construction have been efforts supported by housing counselors.

### **Conclusion**

In addition to having the knowledge of rules and regulations, acquiring the skills to counsel and network, and having a format by which to evaluate a client's situation, it is helpful to the client when the counselor is entrepreneurial by training or by nature. This attribute helps to move the purchase process from hopeless to possible.





## **Chapter 6: Observations and Recommendations**

### **Observations**

#### **What Emerges as Best Practice in Homebuyer Education**

In light of past history, what should a prospective buyer know before purchasing a home? As the history demonstrates, low-income and minority homebuyers have many reasons to not perform in their own best interest. While these buyers may not have had a formal history lesson, the stories of friends, relatives and personal experience will color how these buyers maneuver the purchase process. Best practice homebuyer counseling would combine information that would assist buyers in understanding personal financial situations, the purchase process, practices and obligations of home purchase process professionals, home condition and maintenance, and the avoidance predatory practices during and after the purchase process.

**Understanding Personal Finances.** As practices during the HUD Section 235 program demonstrate, it does not serve the buyer well to not understand where he is financially when purchasing a home. His income, debt, savings and credit history will demonstrate to the lender that he is capable of meeting the mortgage payment each month and perhaps have reserves in case of an emergency. Lenders now require verification of funds from the buyer's employers, national credit reporting agencies, and financial institutions, especially for mortgages purchased by the secondary market. The buyer must also understand his remaining obligations that are not reviewed by the lender. The lender does not review the personal expenses of the buyer before determine mortgage eligibility. Medical bills, childcare, and car insurance are examples of necessary expenses that the buyer will have to consider and budget for before purchasing a home.

**Understanding the Purchase Process.** Low-income and minority buyers must be educated on the purchase process. There is flexibility in some of the early steps but, once signing pre-purchase documents creates a legal obligation, the buyer is in jeopardy of losing money he may have invested in due diligence investigations and earnest money.

**Home Condition and Maintenance.** Understanding the condition of the property is a key factor in successful homeownership. As demonstrated in the HUD Section 235 program, many of the homeowners purchased homes that were in such poor condition that it made it difficult if not impossible to repair. While every buyer is not going to purchase a home in perfect condition, if the defects are known, a buyer has the opportunity to further negotiate the price of the home, plan for repairs, or exercise the option of not purchasing the home with full reimbursement of earnest money. Exercising learned techniques in home repair and maintenance and in hiring professionals in the construction industry, serve to assist the buyer in maintaining or increasing his investment in the property.

**Practices and Obligations of Home Purchase Process Professionals.** Many low-income and minority buyers are unfamiliar with the roles and responsibilities of

professionals that participate in the home purchase process. The buyer must be vigilant in protecting his interests and investment in the purchase. Each professional is guided by the interest of the seller, his employer, or in some cases, personal interest. It is important that the buyer understand the boundaries of these relationships, as well as the regulations that protect the buyer's interest as he interacts with professionals. Many low-income and minority buyers do not realize that they have a choice in working with purchase process professionals and can change professionals when experience unprofessional, illegal, and unfair practices.

**Avoidance of Predatory Practices.** Everyone along the buyer's home purchase path has a potential of participating in fraudulent and predatory practices. During the Section 235 heyday, many buyers paid more than property was worth due to appraisal and inspection practices. Today, buyers can still be defrauded by those practices as well as schemes practiced by lenders, realtors, sellers, inspectors, or the collaboration of these parties. It is important that the homebuyer learn about schemes that are prevalent in the area in which he chooses to purchase a home.

Teaching a client to be vigilant regarding predatory and unethical practices is valuable. A client may not believe that scarce dollars should be spent on home inspection or real estate attorneys. There should be a mechanism by which clients within the 80% AMI receive reduced attorney and home inspection fees. These services could be provided through the non-profit organizations as they are viewed as a more neutral party than the lender. A client could receive these services through the same organization from which he receives counseling.

Through interviews with counselors, it appears that the lender's settlement sheet (HUD-1) has been a source of inaccuracies that cost the client additional funds at closing. Although the settlement sheet is discussed in the pre-purchase education classes, by the time it appears in the purchase process, the client has forgotten its significance. It is rare that these funds are reimbursed as the documents are rarely reviewed after purchase. The settlement sheet is also the primary indicator of predatory practices that charge unfair or excessive fees. If the HUD-1 Settlement Sheet were reviewed by the attorney or the counselor prior to closing, the client would be better served.

**Client Accommodation.** It is important to realize that the components of a best practice homebuyer counseling programs will be dynamic. The needs of the population served change over time. Language and education levels become an increasing challenge when serving low-income households. This affects how much information a person can process through reading educational materials versus needing a counselor to explain the smallest of details.

In evaluating useful changes in the manner in which counseling is delivered, I would increase the funding to support community residents for a longer period of time. It is very difficult to have 10 hours of financial information and be expected to drastically improve personal finances.

It would be interesting to pilot a one-year group support program targeting community residents who are interested in purchasing affordable homes in their neighborhood get their finances in order. Many of the residents who live in the neighborhoods where affordable housing is built do not qualify to purchase. If a class were started when ground is broken for the housing, it would increase the likelihood that the residents would be ready to purchase when the units are completed.

Finally counseling programs need to be accessible to populations served. If the counseling center is a 9AM – 5PM operation, many of the prospective clients may not be able to receive time away from work obligations. Extended hours increase access for those desiring to receive counseling education and advice for this important purchase.

### **Professionalism in the Field**

Table 6.1 show professionals in the real estate field and in social work. Social work was added to the chart because the tasks involved in case management resemble much of the work that is performed in one-on-one homebuyer counseling. Real estate professionals were chosen based on their interaction with the same client base. Each profession has either a college education track or a specialized education curriculum sponsored by the profession's trade association with an affiliation to a government licensing board.

As discussed in Chapter 3, counselor training is a function of the counseling being able to take time away from other duties, course availability, and funding. HUD does provide training for counselors in HUD sponsored mortgage products such as FHA mortgages, VA mortgages, Home Equity Conversion mortgages, and pre-foreclosure prevention sales. The organization which employs the counselor is responsible for requesting this training as well as assuring that

- Counseling skills are upgraded
- Counselors are familiar with community resources available to clients
- Counselors are educated in state and local real estate laws
- Counselors understand financing options
- Counselors are educated in the Fair Housing Laws.

Much of this training coincides with the training proved to other real estate professionals.

An educational structure that would train counselors would provide an environment where consistent information is conveyed to counselors. This environment would be a forum in which counselors begin to form their networks. It would provide the added value of a certified career path.

The Massachusetts Housing Collaborative is working as a professional organization for all who provide informational services to homebuyers and homeowners. Due to the current economic climate, funding for meeting has been reduced giving fewer opportunities for new counselors to network. These meetings also serve as a mechanism

to keep members current of changes in the real estate financings and affordable housing supply. Funding for organizations such as these should be maintained.

## **Recommendations**

### **Counselor Practice**

In Fall 2002 I spoke with my interviewees and requested their input in my research. By the time I conducted the interviews, four counselors had changed employment and are currently in a position that does not require them to counsel. Two of the counselors are lenders in banks working with CRA mortgage products. One counselor is involved with preparing completed mortgages for the secondary market. One counselor is a real estate project manager with no end client contact. Why did they leave their counseling positions?

- **Recruited by the new employer.** While all four were weary in the counseling position from the emotional drain, they were not looking for new positions. They were called by a connection in the new company. All had excellent reputations in the lending and counseling circles and were recruited because of their abilities and connections.
- **Tired of juggling other responsibilities.** As counseling is seldom a full time position, the other responsibilities added to the counseling responsibilities were overwhelming at times. When there is so much counseling work done on an informal basis, there is a potential to over commit time. This leads to burnout.
- **Time for a change.** As with all employment, there comes a time when the employee would enjoy a chance to use other skills as well as acquire new skills. As all of the counselors remained within the homeownership professional arena, they each have positions where their skills will be enhanced by the knowledge gained in the new position.

How can support be increased to keep good counselors in the field? Government may be in position to legislate homeownership for lower income and minority individuals, but in the delivery of services, it is in the best interest of those buyers to be taught by counselors and other professionals who understand the home purchase system from a local perspective. The Greek concept of 'mētis' describes the wide array of practical skills and acquired intelligence that responds to a constantly changing natural and human environment<sup>80</sup>. Local housing markets, local economy, local attitudes toward homeownership, and opportunities for predators to take advantage of the uninformed can be best understood by people who live and work in that environment. The best counselors are those who exemplify mētis. Government agencies that are committed to increasing homeownership should recognize this capacity and financially support local organizations that employ such counselors.

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<sup>80</sup> James C. Scott, *Seeing Like a State*, p 313

## **Quantify Value of Counseling To Justify Program Funding.**

If counselors have this level of impact on low and affordable income homeownership, why is it not a full time, professional paid position? Most counseling duties are performed part time by full time employees performing other duties. Other funding usually financially supports the other duties received by the organization. In an attempt to quantify the value of the assistance that counselors provide, I have found the following.

- Each organization that provides education and counseling can quantify how many people take and complete the pre-purchase education course. Through registration forms, attendance sheets, and the processing of completion certificates, most organizations have a good idea of how many persons were served through the homebuyer education programs. This information may not have been accumulated.
- While some organizations keep an accurate record of how many clients had an appointment for one-on-one counseling, questions answered over the phone are not necessarily counted. A client might require either a short answer to a questions or verification that that he is proceeding in the proper direction. Even though assistance was given, no client information may have been collected.
- Clients who are discouraged by an appointment over two weeks away are not counted. When a client has to wait several weeks for an appointment because a counselor's time is not available, there are no records of him not served. Without this record, an organization cannot properly evaluate if there are enough counselor-hours available.
- There is no accurate count of how many clients purchased homes. Clients may or may not purchase a home using the pre-purchase education certification. They may not use the information to purchase a home within the state. There is no way of accurately measuring the how many clients have purchased, the value of the homes, and other variables to help quantify the level of success of the education and counseling programs.

As there is no accurate record of those who have purchased homes, there is no trail of the percentage of successful ownership or of clients who may be having payment problems. This will help in determine if the education and counseling programs are effective in the long run.

If this information were available, the financial benefits of counseling could be quantified against asset value for the household and tax benefits for the municipality. If the number of discouraged clients could be quantified, the time necessary to service these clients

could be quantified. The counselor's value could be quantified and thereby an argument for funding a full time position could be made.

## **Final Note**

While homeownership policy legislated since 1965 attempted to be more inclusive of lower income and minority households, there has been limited financial assistance in the type of education that would genuinely assist this population in becoming homeowners. After generations of discriminatory and predatory practices, it is difficult for the victims and their descendants to accept that everything will be okay when surrendering everything they have saved to a lender whom is not considered trustworthy. If a family member purchased a home with multiple defects through Section 235/237, how does government erase the disappointment and loss experienced by that household? Why do discriminatory and predatory practices still exist when the government threatens criminal action against the perpetrators of these practices? It is impossible for legislation to stay ahead of all the discriminatory and predatory practices in this industry. It takes years for class action to penalize and/or prosecute those who take advantage of the desperate and uniformed.

The government strategy in raising the number of lower income and minority borrowers has not included the empowerment of these populations to understand and avoid the schemes of predators. Recently there has been a movement to include predatory lending as part of the homebuyer education curriculum but it can only be enacted by education and counseling agencies that understand the local market. Clients must know exactly who the local predators are to avoid predatory schemes. This can only happen as government provides a mechanism to support local counseling organizations.

There is a benefit to the client in participating in one-on-one counseling. A study performed by Abdighani Hirard and Peter Zorn indicates that individual pre-purchase counseling reduces the risk of mortgage delinquency by 34% for lower income individuals as compared to those who did not receive counseling. An investment in counseling will improve the likelihood that the client will be more confident in his ability to maintain his home and repay his mortgage. The confidence translates to the willing to find the resources to make homeownership successful. Successful homeownership will improve central city neighborhoods as residents invest in where they live. Government and community will see that lower income and minority homeownership is a worthy goal and necessary to neighborhood stabilization.

**Table 6.1 Professionals who work in Real Estate and Housing<sup>81</sup>**

<b>Job Title</b>	<b>Education/Training</b>	<b>Licensing/Certification</b>	<b>Trade Associations</b>
Social Worker	Minimum Bachelor level Various related majors such as sociology, political science, health related fields, and psychology. Continuing education required to maintain license	Various levels Licensed through examination process. Mandatory for practice	National Association of Social Workers
Real Estate Broker/Agent	Required 24 hours of real estate related coursework. Continuing education required to maintain license No other education requirement is imposed	State examination various levels of licensing. Mandatory for practice.	National Association of Realtors
Loan Officers	Financial institution and trade sponsored training. Bachelors degree or employment equivalent acceptable	Employer must be licensed to provide mortgages in the state.	American Bankers Association
Mortgage Underwriters	Financial institution and trade sponsored training. Bachelors degree or employment equivalent acceptable.	Employer must be licensed to provide mortgages in the state	American Bankers Association
Appraisers	120 –180 hour in an approved real estate appraisal program containing primary	State examination with various levels of licensing. Mandatory for practice	American Society of Appraisers
Home Inspectors	Apprenticeship under a Licensed home inspector	National Home Inspector Exam for licensing, state administered.	American Society of Home Inspectors, National Association of Home Inspectors
Real Estate Attorneys	Must graduate from an accredited law school	State Bar Exam	Local, State, and National Bar Associations
Homebuyer counselor/educator	Optional course work. May have had past training in real estate, mortgage lending,	Optional certification, course-by-course basis.	Massachusetts Homeownership Collaborative

<sup>81</sup> Information for this table was acquired through the Massachusetts Licensing Board Website, <http://www.state.ma.us/reg/boards.htm>





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