

At-A-Glance Six-Year Findings from HUD's First-Time Homebuyer Education & Counseling Demonstration

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Introduction

Homeownership has traditionally been an important pathway to financial security for U.S. households. Homeownership also has risks. *Homebuyer education and counseling* are designed to help a homebuyer think critically about the benefits and risks of homeownership; understand how to select an affordable home and an appropriate mortgage product; and develop the financial knowledge, resources, and behaviors needed for sustainable homeownership and long-term financial health. **The Demonstration asks, *What if free homebuyer education and counseling were made widely available to people who inquire about a mortgage through a major, national lender?***

KEY FINDINGS

The offer of homebuyer education and counseling—

- Had no overall impact on 60-day delinquency rates.
- Had no overall impact on average credit scores; however, services did improve average credit scores for younger adults and women.
- Increased confidence in ability to find information.
- Increased levels of student loan debt but decreased credit card debt and increased savings.

The impact of homebuyer education and counseling was the same whether it was delivered in person or remotely.

Variation in impacts across subgroups offers opportunities for customizing the next generation of education and counseling services.

STUDY LOCATIONS



DEFINING TERMS

Services:

- homebuyer education—training about buying a home and financial management (6-8 hours)
- homebuyer counseling—one-on-one guidance tailored to the individual homebuyer (1 hour)

Service modes:

- in-person services—education workshop and one-on-one counseling provided at a local counseling agency office
- remote services—online education and telephone one-on-one counseling provided by a national agency

Study participants:

Low- to middle-income first-time potential homebuyers who had approached one of three major national lenders about a mortgage.

The study randomly assigned them to one of two groups:

- treatment group—offered free services
- control group—not offered free services

Confirmatory outcomes:

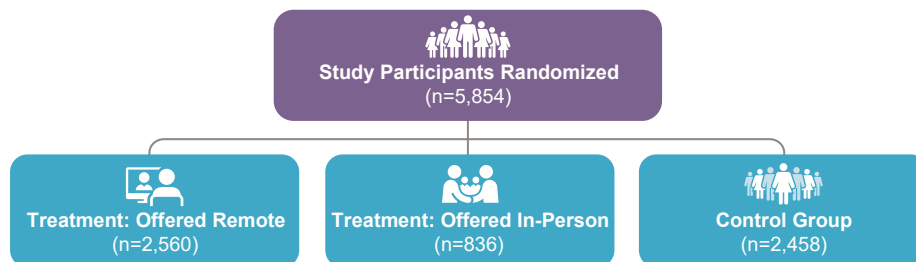
The most important outcomes of interest for the study:

- credit score
- 60-day delinquency rate

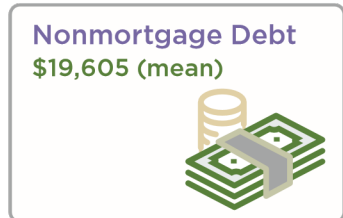
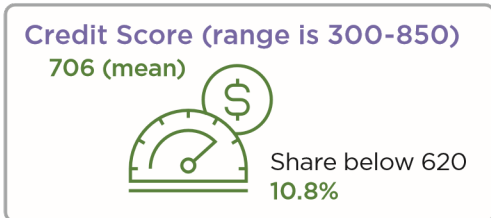
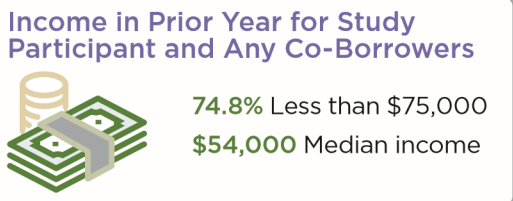
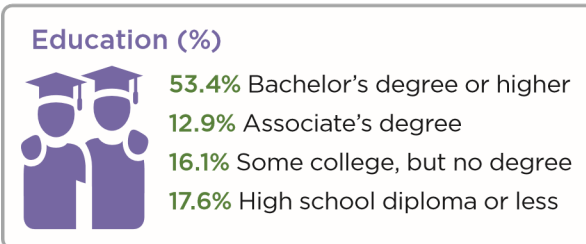
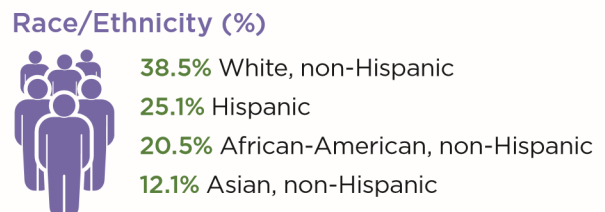
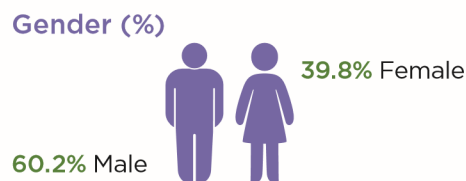
The Demonstration

HUD contracted with Abt Associates to conduct a study to find out what the impact of homebuyer education and counseling would be on (1) preparedness and search, (2) financial capability, and (3) sustainable homeownership.

- To provide the services, the study team partnered with two national agencies and 63 local housing counseling agencies across 28 large metropolitan areas throughout the United States. All agencies follow the National Industry Standards for Homeownership Education and Counseling and are HUD approved, so they meet quality standards.
- To be enrolled in the study, participants were not otherwise required to receive counseling (e.g., as part of a downpayment assistance program), agreed to be in the study, and met other eligibility criteria.
- From September 2013 through February 2016, the study recruited and enrolled 5,854 participants.
- Study participants randomly assigned to the treatment group were offered (1) free remote services, (2) free in-person services, or (3) their choice of remote or in-person services.
- Study participants were diverse across a variety of dimensions.
- Data sources were administrative (from a credit bureau, the Federal Housing Administration, three national lenders, and service provider agencies) and surveys of study participants before they enrolled (“baseline”)—after 12–18 months and after 48–72 months.



STUDY PARTICIPANTS' CHARACTERISTICS AT BASELINE



Limitations on Generalizing the Impact Findings

Although the agencies that provided homebuyer education and counseling services for this Demonstration were all HUD approved, the study did not evaluate any particular organization’s program or HUD’s Office of Housing Counseling programs and services. Instead, the impact findings should be interpreted narrowly—as the result of extending a broad offer of homebuyer education and counseling services to potential first-time homebuyers who approached one of three major national lenders about a mortgage, were not otherwise required to participate in such services, and who were willing to be in the study.

Study Findings

Which homebuyer education and counseling services did treatment group members choose?

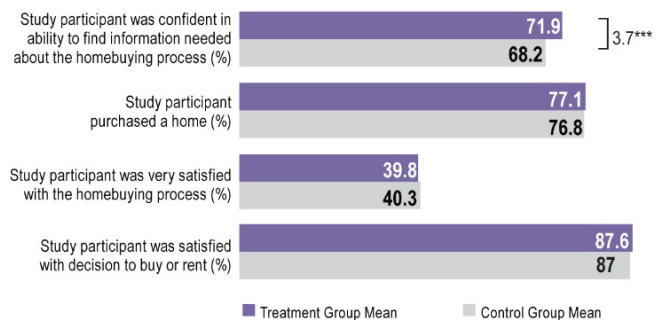
- When offered a choice of service delivery mode, about three-fourths of members said they preferred remote services over in-person services.

Which homebuyer education and counseling services did treatment group members use?

- Overall, 55 percent of members used at least some of the services offered them.
- Overall, 25 percent of members completed all of the services offered them.
- Rates at which members used services varied by mode, with both rates being higher for those offered remote services.
 - Of those offered remote services, 64 percent used them.
 - Of those offered in-person services, 28 percent used them.

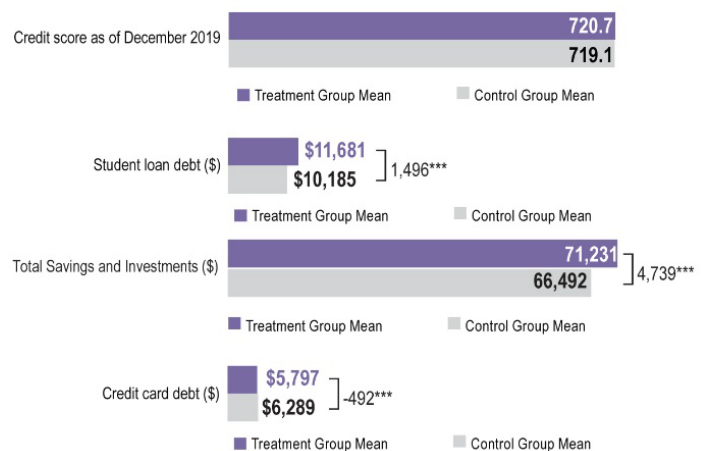
What impact on treatment group members did homebuyer education and counseling services have on preparedness and search?

- Services had no detectable impact on rates of home purchase or satisfaction.
- Services increased confidence in the ability to find needed information about the homebuying process.



What impact on treatment group members did homebuyer education and counseling services have on financial capability?

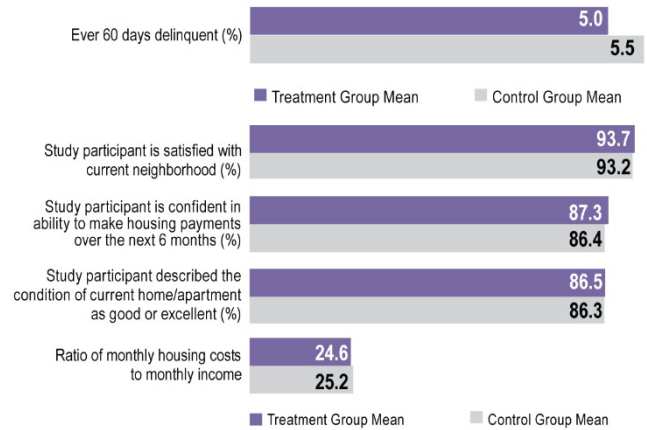
- Services had no detectable impact on:
 - Knowledge—as measured via a financial skill score.
 - Behavior—self-report that the member would contact their lender or a counseling agency, consumer credit counseling agency, or other nonprofit organization for assistance prior to missing a mortgage payment.
 - Indicators—monthly debt-to-income ratio, financial well-being, or credit score.
- Services increased members’ level of student loan debt but decreased levels of credit card debt as of followup at 48-72 months.
- Services increased treatment group members’ savings.



This change in composition of debt and greater savings may have improved members’ home-purchase prospects and success in homeownership.

What impact on treatment group members did homebuyer education and counseling services have on sustainable homeownership?

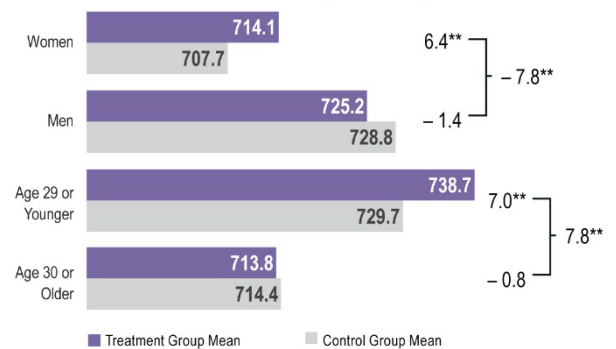
- Services did not detectably improve mortgage performance, including the 60-day delinquency rate.
- Services did not detectably change most measures of sustainable homeownership, including the monthly housing-costs-to-income ratio, home condition, neighborhood satisfaction, and confidence in ability to make housing payments over the next 6 months.



Did the impact on treatment group members of homebuyer education and counseling services vary by subgroup?

- Services helped increase credit scores and total savings and investments of those *younger than age 30* and *women* identified as the primary borrower.
- Services did not help *African-American* or *Hispanic* members with lower baseline credit scores overcome disadvantages that were evident when they entered the homebuying process.

Credit Score as of December 2019 (out of 850)



Did the impact on treatment group members of homebuyer education and counseling services vary by mode?

- Although members overwhelmingly prefer remote services, the impacts of remote services and in-person services are not detectably different.

Implications

A broad offer of free homebuyer education and counseling services (a relatively light-touch intervention as implemented in this Demonstration) might not shift the most important outcomes, but it does shift some debt and savings outcomes—especially for younger borrowers and women—enough that the offer might be a cost-effective strategy.

Although study participants overwhelmingly prefer remote services, no evidence indicates that remote or in-person has greater impacts than the other. This means that moving toward remote services might be cost effective and flexible to the pandemic-influenced world.

Greater intensity and customization of services might be needed to improve the outcomes of those first-time homebuyers coming into homeownership with relatively greater disadvantages.

Future evaluation efforts might (1) focus on evaluating a new generation of services that apply the latest insights from financial education research and (2) explore how best to ensure equitable outcomes.