

A Reprint from *Tierra Grande*, the Real Estate Center Journal



Housing  
Counseling  
Agencies

# Missionaries for Affordable Housing

By Jack C. Harris

**T**he young couple sitting in your office is determined to buy a home. They are frustrated with renting because they know they can buy a house for less per month than they pay in rent. You have a few listings that would be perfect for them. Unfortunately, they do not have an ample income or a great deal of cash, so the conventional home loan is beyond their reach.

You know there are programs available to people in this situation. You remember organizations promoting programs for low-income and first-time homebuyers at real estate conventions. But you don't know how to access these programs, and even if you did, which program would be right for this couple?

Your predicament can be resolved by contacting a local housing counseling agency. These organizations, which consist of nonprofit entities, local government agencies and consumer credit counseling companies, serve as clearinghouses for

affordable housing programs in the area. Housing counseling agencies are in every metropolitan area in the state and many smaller cities as well.

## What Housing Counselors Do

Housing counseling agencies are an excellent resource for prospective homebuyers with limited income and knowledge. The agencies locate local home-financing programs, provide educational programs on personal finance and homebuying and counsel those who have encountered financial or legal problems when trying to buy a home or after purchasing a home.

Although real estate professionals are generally current on market activities, they may not have the opportunity to keep up with the many special programs for low-income and first-time buyers, such as:

- low-down payment, conventional loan programs offered by Fannie Mae and Freddie Mac;

- community development programs that offer monetary and educational assistance and guidance to low-income homebuyers;
- down payment assistance loans and grants provided by state and local governments;
- below-market interest rate loans funded through municipal bonds and run by local housing finance agencies and the state Department of Housing and Community Affairs; and
- affordable housing programs provided by nonprofit and for-profit companies.

These programs sometimes overlap and sometimes result in eligibility gaps. Staying current on what programs are available and who is eligible is a full-time job. Housing counseling agencies fulfill this role, and dispense pertinent information to those who can benefit from the programs.

## Government's Role in Housing Counseling

The federal government has been the major player in the campaign to increase homeownership since the Housing Act of 1949 established the goal of a decent home for every American. Most federal money is funneled through the states and localities. In addition, some private and semiprivate entities (such as the Federal Home Loan Bank of Dallas) offer special financing programs.

Housing counseling agencies are not usually governmental units though some cities have housing departments that perform some counseling functions. Most are nonprofit organizations that support themselves through grants and fees from government agencies, foundations and private lenders. Some are consumer credit agencies that offer general financial counseling along with more specialized housing programs. Some legal aid offices offer housing counseling.

The Housing Act of 1968, the same law that created the Department of Housing and Urban Development (HUD), created the program through which the federal government supports counseling programs. Early on, HUD attempted housing counseling as part of its effort to work out delinquent loans through the 1972 Home Mortgage Assignment Program. The Housing Act of 1974 authorized funding for local agencies to perform these services. These early efforts were aimed at preventing foreclosures and centered on counseling people who were in danger of losing their homes because of financial difficulties.

Passage of the Community Reinvestment Act (CRA) in 1977 and amendments to that act passed in 1989 changed that role. The legislation mandated that, to maintain their charters, lending institutions must make loans throughout the communities in which they are located.

The Home Mortgage Disclosure Act (1977) requires that lenders make public information on where they make loans. As a result, advocacy groups have had access to information needed to pressure lenders to make more loans in minority neighborhoods. Housing counseling agencies help lenders comply with the mandates of CRA by providing a link to low- to moderate-income homebuyers and helping them become financially responsible homeowners.

The 1992 Federal Housing Enterprise Financial Safety and Soundness Act set a goal of ensuring that a substantial portion of loans purchased by Fannie Mae and Freddie Mac, the major purchasers of home loans on the secondary market, be for low- and moderate-income households with further allocations for "underserved markets." Homebuyers who apply for these loans must complete educational programs offered by an approved housing counseling organization.

Agencies certified by HUD can receive training and technical assistance and can compete for government grants for specific programs. Certification is based on evaluation of the agency's ability to fulfill its stated objectives, the extent of the problems the agency seeks to address, the agency's plan and availability of funding sources other than HUD.

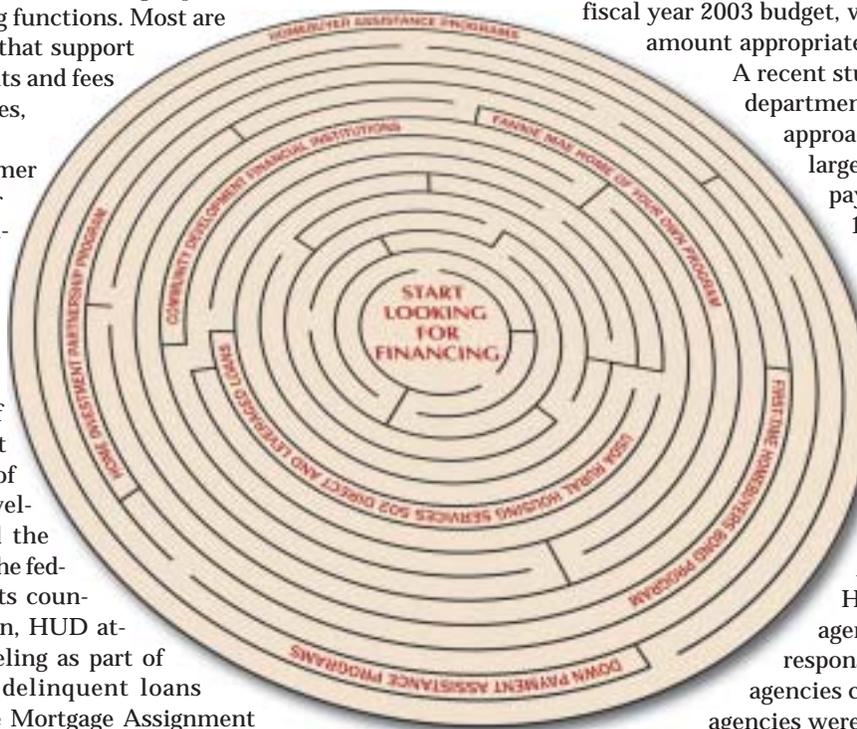
The government's effort to broaden access to mortgage credit relies on counseling to create reliable borrowers in areas where CRA administrators want to increase lending activity and to reduce the probability of default once the loans are made. HUD's commitment to counseling is reflected in its fiscal year 2003 budget, which calls for doubling the amount appropriated for counseling programs.

A recent study supports the department's confidence in this approach. Freddie Mac tracked a large sample of low down payment loans made in the 1990s and found that delinquencies were 19 percent lower on loans for which prepurchase counseling was provided.

## Approved Texas Agencies

Late in 2001, the Real Estate Center at Texas A&M University surveyed HUD-approved housing agencies in Texas. Eleven responses were received out of 52 agencies contacted. The responding agencies were distributed throughout the state. The survey results provide a portrait of the typical agency.

**What services are provided?** All but one of the respondents provide classes on homebuying and various aspects of personal finance designed to prepare the attendees to buy a home. Several standard curriculums are available for these classes, and most of the responding agencies use one of those curriculums. None of the responding agencies offers online or home study classes. However, most have reference material available to clients.





**AGENCIES LIKE** the Brazos Valley Affordable Housing Corporation help low-income and first-time homebuyers find financing from among the dozens of local, state and federal programs aimed at increasing homeownership. Eligibility requirements vary from program to program; counseling agencies stay current on exactly who is eligible for what. Photo by J.P. Beato.

All respondents provide one-on-one counseling, allowing clients to get help with problems they encounter during the homebuying experience. Most can provide this counseling over the telephone.

**A**lmost all respondents refer clients to the appropriate government agency or nonprofit group offering affordable housing programs. Only half of the respondents make similar referrals to lenders or real estate agents. Some agencies maintain lists of lenders who offer affordable housing programs. However, HUD forbids agencies from steering clients to specific real estate agents and other service providers.

**Who can access the services?** Because some housing programs are sponsored by local governmental agencies, it would seem that agency services would be restricted to local residents. However, most respondents reported no such restriction. Restrictions reported related to specific housing programs rather than agency services. For example, most mortgage-bond, below-market interest rate loan programs are for local residents only. Many assistance programs put income caps on eligible recipients. However, counseling services offered by the agencies are not income restricted.

**What do services cost?** Most agencies survive on grants from government and private sources and fees paid by lenders when the agency provides the counseling requirement for affordable housing loan programs. Many of the counseling programs are provided free or at little cost to the public. Prepurchase classes often require a nominal fee. Some agencies provide credit reports at cost.

**How do agencies find clients?** Most agencies rely on referrals for clients. Few advertise or otherwise search out clients. This suggests that agencies should be receptive to referrals from real estate agents seeking to help first-time buyers.

When asked what they found to be the biggest obstacle for homebuyers, almost all respondents cited credit problems. Lack of sufficient down payment was a close second. Several reported the dearth of available affordable homes. Surprisingly, few mentioned lack of knowledge about the homebuying process.

## Housing Opportunities of Houston

Housing Opportunities of Houston, Inc. (HOH), which operates throughout the Houston area, exemplifies a typical housing counseling agency. Prospective homebuyers referred to the agency receive access to information and educational programs that increase their chances of buying a home.

HOH's Homebuyer Class consists of five hours of instruction in finances and credit, the responsibilities of homeownership and how to work with real estate agents. Those who take this class are eligible for affordable housing loan programs and can be prequalified, find a lender through HOH's list of affordable lending partners and get preapproved for a loan. The course costs \$40 and is taught in English, Spanish, Chinese and Vietnamese. Each year, almost 5,000 families take the class.

In January 2002, the agency instituted Internet delivery of the homebuyer course. HOH also provides courses in personal finance, budgeting and credit in conjunction with Consumer Credit Counseling of Houston.

**F**amilies are privately counseled on clearing up credit problems and preparing to apply for a loan. The agency also works with homeowners after they buy to prevent foreclosure when they encounter temporary financial difficulties.

HOH administers the City of Houston's Homebuyer Assistance Program, which helps homebuyers with the down payment and other closing costs if they buy a home within a designated price range within the city limits. Buyers must be willing to stay in the home for five years. Each year, more than 1,000 families meet income eligibility requirements and receive this assistance.

How can you find housing counseling agencies in your area? Check with the local branch office of the Department of Housing and Urban Development. HUD maintains a list of agencies approved to participate in federal housing programs. The list is available on the Internet at <http://www.hudhcc.org/agencies/texas.txt> and includes the types of services provided. ♣

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