

Department of Housing and Urban Development
451 7th Street SW, Washington, DC 20410
Docket No. FR 5786-N-01

RE: Homeowners Armed with Knowledge (HAWK) For New Homebuyers

The Housing Partnership Network (HPN) welcomes the opportunity to respond to the Department of Housing and Urban Development's (HUD) solicitation for comment on the FHA Homeowners Armed with Knowledge (HAWK) for New Homebuyers pilot program. HPN is an award-winning business collaborative of 100 of the nation's most successful affordable housing and community development nonprofits. HPN and its members work together to scale innovation and impact, helping millions of people gain access to affordable homes and thriving communities that offer economic opportunity and an enhanced quality of life. In 2013, HPN received the MacArthur Foundation Award for Creative and Effective Institutions and the Wells Fargo NEXT Award for Opportunity Finance, in recognition of its ongoing leadership and innovation in affordable housing.

HPN was named as HUD's first housing counseling intermediary in 1995 and has since worked with our members' housing counseling agencies to ensure the highest quality delivery of federal housing counseling resources across the spectrum of consumer needs. Collectively, HPN members have provided homeownership education and housing advice to more than 750,000 families and are among the highest impact counseling organizations in HUD's delivery system. On average, individual HPN members advise 1,700 households per year, with our largest members advising more than 5,000 households per year. Consistent with our mission, 75% of these households have incomes below 80% of Area Median Income and a majority of households are of people of color. HPN members, in particular, have extensive experience counseling new homebuyers.

HPN and our member, the Minnesota Homeownership Center, are also the developers of Framework[®], a joint venture that provides an interactive state-of-the-art online homebuyer education course that meets all benchmarks of both the HUD Housing Counseling Program and National Industry Standards for Homeownership Education and Counseling. The Framework curriculum was developed using best practices in adult education and digital learning and is appealing to a new homebuyer demographic that is accustomed to accessing information and learning online. Framework is accessible 24/7 to rural populations, working families, and people for whom travel to in-person classes is simply not feasible. Since its launch last year, Framework has provided homebuyer education to more than 4,000 users.

Summary of Comments

HPN commends the Federal Housing Administration's (FHA) proposed new HAWK pilot program. The HAWK pilot represents a significant step forward by HUD and FHA in embracing the importance high-

quality homebuyer education and counseling as a critical bridge to sustainable homeownership for new and underserved potential homeowners. A well-designed and implemented program could have a tremendous impact on the residential mortgage industry by demonstrating the value proposition for homebuyer education and counseling as a credit enhancer for first-time homebuyers, and creating a strong precedent for other commercial mortgage products to embed access to counseling, consumer advice, and homebuyer education throughout the life of the loan. The HAWK pilot could also contribute to driving an ongoing transformation in the counseling industry toward scaled, professional, and high capacity organizations that provide a broad range of services to current and prospective homebuyers, paid for by all beneficiaries of those services. We coined the phrase “homeownership stewards” to describe the role of nonprofit social enterprises with the mission-based commitment to their customers and financially sustainable models that will allow these organizations to serve as trusted advisors to consumers across the entire homeownership experience – available to give advice and support from pre-purchase to closing to refinancing and sale, there to support consumers should they encounter difficulties paying the mortgage.

The integration of counseling into FHA mortgages through HAWK is also a significant opportunity for counseling intermediaries and agencies to advance and scale new service models, since the pilot will require highly efficient service delivery that ensures consistently high-quality counseling services nationwide. HPN’s vision for the counseling industry is in line with these demands, with the objective of developing scalable and sustainable fee-based models that enable greater customer responsiveness. Our network of high-capacity counseling agencies, focused on pre-purchase and post-purchase counseling, are already diversifying their modes of service delivery to ensure that they are able to respond to consumer demand efficiently and effectively.

HPN supports many of the key elements of the pilot program outlined in the May 15th notice for comment, which align with HPN’s vision for a sustainable and scalable model for the housing counseling industry:

- The proposed pilot endorses the application of technology solutions such as online and phone-based education and counseling, which will advance the industry’s capacity to provide efficient, high quality service at scale and at a lower cost.
- The pilot also embeds homebuyer education and counseling directly into a mortgage product, a model that HPN and partner organizations have been advocating for as a comprehensive and effective service for consumers. Consumers and lenders alike can immediately realize the value of the intervention.
- Finally, the pilot adopts an incentive and fee-based model for homebuyer education and counseling services, recognizing that all parties that benefit from value of counseling should contribute to cost of the service.

At the same time, we would suggest that the proposed HAWK pilot could do more to advance the scaled and technologically sophisticated business models that counseling organizations and intermediary networks must adopt in order to play a more systemic role in the mortgage industry. HPN proposes that FHA focus on six main areas when developing and refining the final contours of the HAWK pilot:

- 1) **Leverage the role of intermediaries** and their networked approach to service delivery, with strong focus that intermediaries bring on quality assurance, the aggregation of administrative overhead including reporting and compliance functions, and the dissemination of innovation;
- 2) **Actively promote the use of online homebuyer education tools for phase 1 of the pilot** in order to expand the use of technology for lower cost, efficient, and scalable options for homebuyer education and counseling;
- 3) **Emphasize content proficiency over hours of counseling** by requiring homebuyers to demonstrate aptitude in required content at all stages of education and counseling through exams or other means while deemphasizing the proposed rule's reliance on a specific number of hours designed to achieve this proficiency;
- 4) **Re-frame post purchase counseling content to align with customer need** to rely less on the provision of a generalized curriculum and more on the ability of one-on-one counseling to answer specific concern and issues that have arisen for the consumer in the first months of their homeownership experience;
- 5) **Avoid setting prices for counseling services as part of HAWK** and allow counseling agencies to set the cost of counseling in a way that reflects true agency costs and that does not create arbitrary benchmarks for the industry overall; and,
- 6) **Ensure implementation of HAWK reduces cumbersome requirements** that increase costs to the program and limit consumer choice.

Leverage the role of Intermediaries:

HPN recommends that FHA leverage the role of intermediaries in the HAWK for New Homebuyers pilot. In fact, **HPN suggests that FHA require counseling agencies to participate in the pilot through their intermediary.** By working with intermediaries, FHA can more easily access the multiple local and regional markets represented by each national intermediary partner. Furthermore, intermediaries provide operational oversight and quality control, training and technical assistance, and foster innovations among the participants in their networks, all of which are critical to the success of the HAWK pilot.

Housing counseling intermediaries are key drivers of accountability, scale, and innovation in our industry, particularly as the industry moves toward higher-capacity, scale-driven operations. Intermediaries work closely with their networks of housing counseling agencies on quality assurance and operational oversight, performance benchmarking, training and technical assistance, and scaling and innovating business models while ensuring sustainability. Intermediaries also create efficiencies in the system by taking on some of the administrative overhead of counseling operations related to compliance and reporting.

Throughout the foreclosure crisis mortgage servicers developed fee for foreclosure prevention counseling service models that leveraged intermediary relationships with networks of counseling agencies to ensure scale, operating efficiencies, and quality performance. As a result, intermediaries also helped their network of counseling agencies access new markets and partnerships. These models created a precedent for deeper integration of counseling and homebuyer education into mortgage lending processes and have substantial synergies with FHA's HAWK pilot.

Finally, FHA should leverage the intermediary system to expand counseling agency participation in Phase 1 of the HAWK pilot. **We believe the selection criteria for Phase 1 should be modified so that a counseling agency whose intermediary has existing agreements and program arrangements with an FHA-approved lender(s) – and that satisfies all other eligibility criteria - may be eligible to participate in Phase 1 of the pilot.**

Actively Promote the Use of Online Homebuyer Education Tools for Phase 1 of the Pilot:

For HAWK to succeed, housing counseling agencies must have the tools to deliver their services in efficient and scalable ways that: a) do not require the availability of grant funds; and b) can demonstrate consistent quality and proficiency for a large number of consumers across the country. Counseling services must also be broadly accessible across geographies and attractive to the next generation of homebuyers, many of whom operate almost exclusively online. Web-based tools like Framework are essential to achieve this goal. For this reason, HPN recommends that FHA take its endorsement of online education in HAWK one step further and **actively promote the use of online homebuyer education tools by providing education opportunities and resources to lenders and counseling agencies regarding online options available to consumers.**

A cornerstone to HPN's vision for the future of the housing counseling industry is to begin with online homebuyer education and counseling. **Through HPN's online homebuyer education course, Framework®, all HUD approved housing counseling agencies nationwide now have access to a high quality online homebuyer education tool free of charge that can be easily linked to their agency website and delivered to customers at scale.** Customers can have access to high-quality homebuyer education 24 hours a day, 7 days a week. They do not have to travel. They can learn the material at their own pace at their own convenience. And, the cost to deliver this content is less expensive than any of the alternatives.

Framework is the most comprehensive and user-friendly online homebuyer education course available. Designed by a team of housing counselors and experts in online education, Framework addresses a growing demand for online homebuyer education services from such diverse customers as rural populations, working families, and younger homebuyers—people for whom travel to in-person classes is either not feasible or desirable. Framework also requires all consumers to complete a final exam, which ensures that prospective homebuyers are proficient in required content before obtaining a certificate. Framework is not exclusive to HPN members; HPN has developed Framework so that any agency in the country can link to Framework free of charge to the agency. Framework consumers contribute a \$75 fee

in order to take the course, reflecting HPN's belief that all parties benefiting from homebuyer education ought to contribute to the cost of the service – a principal that is also reflected in the HAWK pilot proposal.

Emphasize Proficiency over Number of Hours:

The HAWK pilot's current focus on the duration of counseling and education as a standard for counseling products and services overemphasizes classroom and face-to-face time, to the detriment of consumer proficiency with curriculum material and cost efficiencies. The current pilot mandates 7.5 hours of pre-purchase homebuyer education and counseling and 1.0 hours each of pre- and post- closing counseling. However, in practice, an individual homeowner may require radically varying amounts of time with a counselor, depending on his or her situation. Homeowners may also require more or less time to complete a homebuyer education curriculum depending on learning paces and styles, especially if the curriculum is online. There is no evidence that the number of hours spent in counseling sessions improves outcomes for consumers. None of the major studies on counseling and loan performance has established a link.

HPN maintains that actual demonstration of content proficiency is more important than hours of service, and we accordingly recommend that the FHA **require that HAWK homebuyers demonstrate proficiency in required content at each stage of the required counseling and for all modes of education**, rather than simply completing a set number of hours of education and counseling. Emphasizing proficiency using standard assessments would help ensure that counseling through HAWK is high-quality and effective and that homebuyers participating in the program are truly ready for homeownership. This could be done in a number of ways, including a consumer assessment requirement at the end of the homebuyer education component that measures proficiency in specific content areas, and also through review guidelines for housing counselors to cover with customers in one-on-one sessions. Framework, HPN's online homebuyer education course, is one example of a counseling platform that assesses proficiency with the education curriculum: in order for a consumer to receive a certificate of completion through Framework, she or he must pass a final exam with 80% proficiency. Individual counseling assessments could model the current HECM Protocol that ensures content proficiency in order to obtain a certificate by requiring counselors to ask mandated questions to confirm a client's understanding of the material presented to them.

Reframe Post-Purchase Content to Align with Customer Need:

The post-closing curriculum outlined in the proposed HAWK pilot in large appears to recap the pre-purchase homebuyer education materials and focuses on general concepts rather than individualized homeowner needs. While we agree that this material is very important and consumers would benefit if the material was revisited at later points in the homeownership experience, we also believe that it has the potential to distract from the primary purpose of post-purchase counseling: That is that post-purchase counseling should ensure that the new homeowner sustains homeownership by addressing issues specific to the consumer's needs at the time of the post-purchase intervention. HPN recommends

that FHA **re-frame the post-closing counseling content requirement** to focus on the individual needs of the new homeowner, which might include reviewing his or her first loan statement, revisiting the household budget, or talking through any other issues or concerns that have come up. Currently, the proposed pilot requires a one-on-one counseling session, but the content of the session is more aligned with general post-purchase education – content that could be potentially be provided through other delivery mechanisms like on-line curricula.

HUD may want to also revisit the timing of the post-closing session to maximize its impact – a counseling session 60 or even 90 days post-closing may prove more productive for both counselor and client, since the homeowner will have received at least one loan statement and may have more questions after several months of homeownership.

FHA should avoid setting prices for counseling services as part of HAWK:

HPN strongly believes that FHA should avoid setting prices for counseling services as part of HAWK. HPN encourages FHA to allow counseling agencies to set the cost of counseling in a way that reflects true agency costs and that does not create arbitrary benchmarks for the industry overall. HPN specifically encourages FHA to take the approach outlined in the HAWK Back to Work Program, Mortgagee Letter 2013-26, where fees are allowed but no specific fee structure is mandated.

By setting fee benchmarks in the HAWK pilot, FHA risks arbitrarily penalizing counseling agencies that operate in higher-cost markets, since service costs can vary widely by market and by product, or agencies that disproportionately serve clients with greater service needs. If – as HPN suggests – HAWK counseling clients are assessed based on their proficiency with content, the costs of counseling sessions will vary based on each consumer’s mortgage readiness and the consequent time required to coach that consumer. Importantly, counseling costs are determined by several factors beyond just time spent with the client, including time for document preparation and review, client file creation and data entry. In setting a suggested fee for pre-purchase counseling services in the pilot, FHA risks setting a precedent that could apply across the industry, beyond the HAWK pilot.

Reduce Cumbersome Requirements and Maximize Consumer Choice:

HPN suggests that FHA ensure HAWK **avoids cumbersome requirements** that could increase program costs and limit consumer choice. Specifically, HPN suggests that:

- Borrowers should have the option to switch counseling agencies over the course of the HAWK program. If a consumer is not satisfied with the services provided by the first agency they work with, they should be able to see follow up services elsewhere.
- E-signatures for borrowers should be accepted to avoid hand signing of all documents.
- FHA should simplify the process of paying for counseling. The payment method for borrowers outlined in the notice is confusing and difficult to understand, even for experienced counselors and administrators of counseling funds. Ideas for a simpler method of payment, that does not

set costs and that does not include a voucher system, should be considered. HPN would suggest again that FHA use the Back to Work strategy where counseling agencies and lenders set up client fee policies and fee for service arrangements individually, reflecting their local markets and internal processes and cost structures. In addition, page 21 of the notice reads “The cost of pre-closing and post-closing housing counseling will be reimbursed at closing by the originating FHA-approved lender through a payment by the lender to the housing counseling agency at loan closing (or to the borrower at loan closing if the borrower paid for the counseling at the time it was delivered prior to loan closing).” From there in, the notice only refers to borrower reimbursement and not to the counseling agency. This section of the notice should be revised to make it clear that either the agency or the borrower will be reimbursed for these costs dependent on which entity absorbed the cost of the services in the first place.

Additional Issues: Marketing, Evaluation, and Incentives

In response to the FHA’s specific request for feedback on marketing and evaluation of the HAWK pilot, as well as the effectiveness of incentives for homebuyers, HPN has the following comments:

Marketing: Lenders participating in the HAWK pilot are best positioned to be the primary marketers of the HAWK program and services. However, it is crucial that the FHA ensure that participating lenders are familiar with the participating counseling agencies in their area and with the pilot’s homebuyer education and counseling processes and requirements. Lack of accurate information on the part of the lender can cause problems down the line for consumers and counselors. For example, HPN members participating in the Back to Work program reported some lenders inadvertently provided misinformation to consumers about the program counseling requirements, resulting in consumer frustration when they learned from counselors that the requirements were different from what they were previously told. The FHA should also co-educate lenders and counselors about HAWK processes and requirements, so that all pilot participants are aligned around common understanding of the pilot’s structure.

Evaluation: FHA should prioritize streamlining the evaluation component of the HAWK pilot to reduce the burden on pilot participants - particularly unreimbursed pilot costs - while also ensuring that the pilot is data driven and outcomes are quantifiable. The FHA should request data that is easily collected, organized and analyzed instead of relying on time intensive site visits, focus groups, and individual interviews. One potential lower cost and burden approach to data collection could use surveys to assess the experiences and thoughts of consumers, counselors and lenders, with responses that can be quantified (like yes/no responses or numerical ratings) rather than long form comments.

Incentive Structure: Finally, several HPN members have voiced concerns that the HAWK program’s borrower incentive structure may be insufficient to enhance affordability of FHA mortgage products – especially in light of the recent increases in FHA MI premiums - and may therefore discourage borrowers from enrolling in the pilot. In particular, HPN members noted that the 25 basis point reduction in the annual MI premium may be too small to significantly impact affordability in many markets, and that

since the upfront premium is usually financed into the mortgage, any savings would be spread over several years. HPN therefore believes that FHA should consider rebalancing the MIP incentive by increasing the annual MIP incentive and reducing the upfront MIP incentive. FHA may also consider coordinating with federal and local down payment assistance programs to make HAWK more broadly accessible to new homebuyers and to ensure broad consumer participation in the pilot.

Conclusion

Thank you in advance for your consideration of these comments. If you have additional questions, please do not hesitate to reach out to Paul Weech at Weech@housingpartnership.net or Danielle Samalin at Samalin@housingpartnership.net

A handwritten signature in blue ink that reads "Paul Weech". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul Weech

Executive Vice President for Policy and External Affairs

Housing Partnership Network