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# HOMEOWNERSHIP COUNSELING

## Although Research Suggests Some Benefits, Implementation and Evaluation Challenges Exist

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Financial Markets and Community Investment

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Highlights of [GAO-11-925T](#), a testimony before the Subcommittee on Insurance, Housing and Community Opportunity, Committee on Financial Services, House of Representatives

## Why GAO Did This Study

Homeownership counseling can help consumers learn about buying a home and give them tools to deal with setbacks that could keep them from making timely mortgage payments. The Department of Housing and Urban Development (HUD) approves and provides grants to housing counseling agencies and has also implemented a requirement that borrowers seeking federally insured reverse mortgages through the Home Equity Conversion Mortgage (HECM) program receive counseling before taking out a HECM. The U.S. Department of the Treasury (Treasury) has also implemented a counseling requirement as part of its mortgage modification efforts under the Home Affordable Modification Program (HAMP). This statement discusses (1) what research suggests about the effectiveness of homeownership counseling and the challenges of conducting such research, (2) shortcomings that prior GAO work found in federal agencies' implementation of homeownership counseling requirements, and (3) the status of efforts to establish an Office of Housing Counseling within HUD.

In preparing this statement, GAO relied on its past work on homeownership counseling, including a review of research and interviews with federal agency staff on implementing and evaluating counseling programs.

GAO has made recommendations to HUD and Treasury to improve oversight and evaluation of their homeownership counseling requirements. HUD implemented the recommendations, while Treasury said that implementation would be too burdensome.

View [GAO-11-925T](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or [cackleya@gao.gov](mailto:cackleya@gao.gov).

September 14, 2011

## HOMEOWNERSHIP COUNSELING

### Although Research Suggests Some Benefits, Implementation and Evaluation Challenges Exist

## What GAO Found

The body of literature on homeownership counseling does not provide conclusive findings on the impact of all types of counseling. Recent research on foreclosure mitigation counseling—which helps financially distressed homeowners who are delinquent on payments—suggests that it can help homeowners avoid foreclosure and prevent them from lapsing back into default. Findings on prepurchase counseling—which helps potential homebuyers learn about buying a home and explains the financial responsibilities of homeownership—are less clear. One study concluded that such counseling lowered the default rate for new homeowners, but other studies showed no effect. Efforts to measure the impact of homeownership counseling have been hampered by a lack of data, as well as by challenges in designing studies and creating effective performance measures. Further studies are under way at HUD and Fannie Mae that are designed to overcome some of these limitations.

Prior GAO work identified shortcomings in the implementation of homeownership counseling requirements for two federal programs. A 2009 study of the HECM program found that HUD's internal controls did not ensure that counselors were complying with program requirements. HUD later made improvements to the HECM program to address GAO's recommendations. Another GAO study from 2009 found that Treasury did not effectively track whether borrowers required to seek counseling under HAMP actually received it or whether counseling reduced the rate of redefaults. Treasury officials said that they had not implemented a monitoring process because it would be too burdensome for Treasury and mortgage servicers. They also did not plan to assess the effectiveness of counseling in limiting redefaults, in part because they believed that the benefits of counseling on the performance of borrowers with high debt burdens were well documented. GAO continues to believe that monitoring and assessment would provide valuable information on whether the counseling requirement is having its intended effect.

HUD is establishing a new Office of Housing Counseling, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). According to HUD, the agency is developing a reorganization plan but is unable to estimate when it will be submitted to Congress. Budget constraints could affect the new counseling office. Although the Dodd-Frank Act authorized \$45 million per year through fiscal year 2012 for the operations of the new office, HUD has not received appropriations for this purpose. In addition, appropriations for fiscal year 2011 eliminated HUD's housing counseling assistance funds, which are primarily grant funds for approved counseling agencies.

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Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee:

I am pleased to be here to participate in today's hearing on housing counseling. As you know, housing counseling can help consumers determine whether and when to purchase a home, how to manage a mortgage, and how to deal with setbacks that could limit their ability to make timely mortgage payments. This subcommittee's focus on such assistance is critical, given that the number of homes in foreclosure and of homeowners in financial distress remains at historically high levels. In the second quarter of 2011, more than 3.4 million home mortgages were 90 or more days delinquent or in the foreclosure process, and estimates indicate that more than one in five mortgage borrowers owe more on their mortgages than their homes are worth. The Department of Housing and Urban Development (HUD) approves and provides grants to housing counseling agencies. It has also implemented a requirement that federally insured reverse mortgage borrowers participating in the Home Equity Conversion Mortgage (HECM) program receive counseling before getting their mortgages.<sup>1</sup> The U.S. Department of the Treasury (Treasury) has also implemented a counseling requirement as part of its mortgage modification efforts under the Home Affordable Modification Program (HAMP).<sup>2</sup>

My statement today is based on recent work we have conducted related to housing counseling and will discuss (1) what research suggests about the effectiveness of homeownership counseling and the challenges of conducting such research, (2) shortcomings that our prior work found in federal agencies' implementation of homeownership counseling requirements, and (3) the status of efforts to establish an Office of Housing Counseling within HUD.<sup>3</sup>

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<sup>1</sup>Reverse mortgages are a type of loan against home equity available to seniors. Through its HECM program, HUD insures reverse mortgages, which are made by private lenders, and oversees the agencies that provide mandatory counseling to prospective HECM borrowers.

<sup>2</sup>A major purpose of HAMP is to modify the first-lien mortgages of homeowners in danger of foreclosure. Under the first-lien program, borrowers with high levels of household debt must agree to obtain counseling.

<sup>3</sup>A list of related GAO products on which this statement is based can be found at the end of this testimony.

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In preparing the reports on which this testimony is based, we reviewed research and conducted interviews with appropriate researchers and agency staff on the impact of homeownership education and counseling, HUD's controls over reverse mortgage counseling, HUD's plans for creating an Office of Housing Counseling, Treasury's processes and documentation for the Financial Education and Counseling Pilot Program, and Treasury's implementation of a counseling requirement under HAMP.<sup>4</sup> We also interviewed selected homeownership counseling providers and mortgage market researchers as well as HUD and Treasury officials.

We performed the work for the reports underlying this testimony as part of our ongoing oversight responsibilities from April 2008 through July 2011. We performed our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

Homeownership counseling refers to prepurchase and postpurchase counseling of homeowners and is a subset of housing counseling, which can also include assistance to renters and homeless populations. Prepurchase counseling generally refers to counseling for potential homebuyers to learn about whether and when to buy a home and how to manage a mortgage, budget for repairs, and fulfill other financial responsibilities of being a homeowner. Postpurchase counseling primarily refers to foreclosure mitigation counseling, which focuses on helping financially distressed homeowners avoid foreclosure by working with lenders to cure mortgage delinquency but can also include subjects such as home maintenance. Counseling can take place in person, over the telephone, via a self-study computer module, or with a workbook, and can

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<sup>4</sup>Treasury's Financial Education and Counseling Pilot Program, authorized pursuant to Section 1132 of the Housing and Economic Recovery Act of 2008 (Pub. L. No. 110-289), awards grants to eligible organizations, including HUD-approved housing counseling agencies, to provide financial education and counseling services to prospective homebuyers.

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vary in length from a single session to several sessions spread over a period of weeks or months.

The federal government funds homeownership counseling through a number of programs at HUD, Treasury, the Department of Defense, and the Department of Veterans Affairs. Congress has also provided targeted support for foreclosure mitigation counseling. For example, in recent years, Congress has appropriated funds to the National Foreclosure Mitigation Counseling (NFMC) Program, which was designed to rapidly expand the availability of foreclosure mitigation counseling. NFMC is administered by NeighborWorks® America, a government-chartered, nonprofit corporation with a national network of affiliated organizations, which competitively distributes NFMC funds to other recipients.

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### **Findings from the Limited Research Available on Homeownership Counseling Are Mixed**

The limited body of literature on homeownership counseling does not provide conclusive findings on the impact of all types of homeownership counseling. Some studies suggest that foreclosure mitigation counseling can be effective in improving mortgage outcomes (e.g., remaining current on mortgage payments versus defaulting or losing the home to foreclosure). However, findings on prepurchase counseling are less clear. Research on homeownership counseling is limited in part because of data limitations and other challenges.

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### **Although Research on Foreclosure Mitigation Counseling Suggests Benefits, Results on Other Types of Counseling Are Mixed**

Recent research on foreclosure mitigation counseling suggests that it can help struggling mortgage borrowers avoid foreclosure and prevent them from lapsing back into default, especially if the counseling occurs early in the foreclosure process. A 2010 evaluation of NFMC found that homeowners who received counseling under the program were more likely to receive loan modifications and remain current on their mortgages after counseling, compared with a group of non-NFMC borrowers with similar observable characteristics. Specifically, the authors estimated that borrowers who received NFMC counseling were 1.7 times more likely to “cure” their foreclosure (i.e., be removed from the foreclosure process by their mortgage servicer) than borrowers who did not receive NFMC counseling. The authors also estimated that loan modifications received by NFMC clients in the first 2 years of the program resulted in monthly mortgage payments that averaged \$267 less than they would have paid without the program’s help. Additionally, the study found that in 2008,

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borrowers who received NFMC counseling before a loan modification had an estimated 53 percent better chance of bringing their mortgages current than borrowers who did not receive premodification counseling.<sup>5</sup> Other studies of foreclosure prevention counseling have also found that the timing of the counseling was critical and that the earlier in the foreclosure process borrowers received counseling, the more likely they were to have a positive outcome.<sup>6</sup>

The findings on the impact of prepurchase counseling are less clear. For example, a 2001 study analyzed data on the performance of about 40,000 mortgages made under a Freddie Mac program for low- to moderate-income homebuyers, a large majority of whom received prepurchase counseling.<sup>7</sup> The authors compared the loan performance of program participants who received different types of prepurchase counseling to the loan performance of participants who did not. The study found that borrowers who underwent individual and classroom counseling were 34 and 26 percent less likely, respectively, to become 90 days delinquent on their mortgages than similar borrowers who did not undergo counseling.<sup>8</sup> However, subsequent studies have found either no effect on loan performance or effects that were potentially attributable to other factors. For example, a 2008 study of about 2,700 mortgage borrowers found that prepurchase counseling had no effect on a borrower's propensity to default.<sup>9</sup> A 2009 study examined a legislated pilot program

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<sup>5</sup>Neil S. Mayer, Peter A. Tatian, Kenneth Temkin, and Charles A. Calhoun, *National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Efforts, September 2010 Update*, prepared for NeighborWorks® America (Washington, D.C., Urban Institute, 2010). The study focused on the approximately 800,000 borrowers who received NFMC counseling from January 2008 through December 2009 and a comparison sample of non-NFMC-counseled homeowners.

<sup>6</sup>Lei Ding, Roberto G. Quercia, and Janneke Ratcliffe, "Post-purchase Counseling and Default Resolution among Low- and Moderate- Income Borrowers," *Journal of Real Estate Research*, vol. 30, no. 3 (2008).

<sup>7</sup>Abdighani Hiram and Peter M. Zorn, *A Little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling*, Joint Center for Housing Studies of Harvard University, Low Income Homeownership Working Paper Series 01.4 (Cambridge, Mass., August 2001).

<sup>8</sup>Hiram and Zorn, *A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling*.

<sup>9</sup>Roberto Quercia and Jonathan S. Spader, "Does Homeownership Counseling Affect the Prepayment and Default Behavior of Affordable Mortgage Borrowers?" *Journal of Policy Analysis and Management*, vol. 27, no. 2 (2008).

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in 10 Illinois ZIP codes that mandated prepurchase counseling for mortgage applicants whose credit scores were relatively low or who chose higher-risk mortgage products such as interest-only loans. Although the authors found that mortgage default rates for the counseled low-credit score borrowers were lower than those for a comparison group, the authors attributed this result primarily to lenders tightening their screening of borrowers in response to stricter regulatory oversight.<sup>10</sup>

Additional empirical research on the impact of housing counseling is under way at HUD and Fannie Mae. HUD's Office of Policy Development and Research issued a broad overview of the housing counseling industry in 2008 and is currently conducting two studies on mortgage outcomes related to foreclosure mitigation and prepurchase counseling programs.<sup>11</sup> The foreclosure mitigation study will follow 880 individuals and evaluate mortgage outcomes 12 months after counseling ends. HUD officials said that they expected the study to be published in 2012. The prepurchase counseling study will track 1,500 to 2,000 individuals who receive different types of counseling (one-on-one, group, Internet, or telephone) or no counseling. HUD officials said that they expected data collection for this study to begin in 2012. In addition, Fannie Mae is conducting both prepurchase and postpurchase counseling studies. According to Fannie Mae officials, the prepurchase study will track over a 2-year period the loan performance of borrowers who received counseling prior to purchasing a home. The postpurchase study will evaluate the impact of telephone counseling on existing homeowners who receive loan modifications through HAMP.

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<sup>10</sup>Sumit Agarwal, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff, *Do Financial Counseling Mandates Improve Mortgage Choice and Performance? Evidence from a Legislative Experiment*, working paper 2009-07 (Federal Reserve Board of Chicago, 2009).

<sup>11</sup>Christopher E. Herbert, Jennifer Turnham, and Christopher N. Rodger, *The State of the Housing Counseling Industry*, Abt Associates for the Department of Housing and Urban Development (Washington, D.C., September 2008).

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## Measuring the Effectiveness of Homeownership Counseling Presents Challenges

Conducting research on homeownership counseling outcomes is challenging for a variety of reasons, and limitations in the methodologies used in existing studies make it difficult to generalize the results or compare outcomes across various studies. According to housing counseling researchers we spoke with, the primary barrier in the study of housing counseling is a lack of data. Long-term data on counseling outcomes are limited because of the difficulty of tracking counseling recipients after the counseling ends. In addition, many counseling agencies are hesitant to request sensitive personal information from clients. One researcher we spoke with told us that the ability to track loan performance over time is critical to an effective assessment of housing counseling programs. For this reason, some counseling researchers have begun working with lenders and mortgage servicers to access information on the payment status (e.g., current or delinquent) of counseling recipients and the long-term outcomes of their mortgages. Another limitation of the current research is the lack of experimental research design, which is considered the best approach for evaluating differences in an intervention such as counseling and comparing it to no intervention.<sup>12</sup> We did not identify any published studies that evaluated homeownership counseling using an experimental design. For this and other reasons, researchers have been hesitant to draw firm conclusions from the published literature. For example, differences among counseling programs—in terms of curriculum, intervention method (e.g., one-on-one, telephone, or classroom), level of intervention (e.g., intensity or amount of time spent counseling), and outcome measures—make it difficult to draw broader conclusions about the impact of housing counseling.

Establishing meaningful measures of the impact of homeownership counseling programs is also a significant challenge. Our recent evaluation of Treasury’s Financial Education and Counseling Pilot Program

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<sup>12</sup>Experimental design involves random assignment of subjects to treatment and control groups to isolate the impact of the treatment. In the context of prepurchase homeownership counseling, one group of prospective homebuyers would receive counseling (treatment group) and the other would not (control group). Experimental design can mitigate the problem of “selection bias.” Individuals who receive housing counseling, either on their own or by enrolling in a research study, represent a “self-selected” population. Therefore, they may be systematically different than individuals who do not seek counseling, and this potential bias makes generalizing research results for the self-selected population problematic.

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illustrates this point.<sup>13</sup> As a condition of receiving grant funds under the program, grantees are required to report on the results of five performance goals within 6 months of disbursement and annually thereafter. We found that some grantees were calculating the results of their impact measures in erroneous or misleading ways or were not fully capturing meaningful information, potentially limiting the usefulness of these data for assessing program effectiveness. For example, one grantee inaccurately calculated the average percentage increase in prospective homebuyer savings. According to the grantee's calculation, a participant who began a financial education and counseling program with no savings but subsequently saved \$500 was shown to have a 50,000 percent increase in savings. In fact, a percentage increase cannot be meaningfully calculated from zero savings because any percentage increase on zero is infinite. We also identified alternatives to the methods of calculating impact measures that the grantees were using. For example, we noted that instead of just measuring changes in clients' savings, it might be advantageous to focus on net savings—that is, savings minus debt—to provide a more complete picture of an individual's financial situation.

Treasury officials told us that they had discussed the specific impact measures with each grantee in the pilot program but had not provided guidance on how to calculate the results. We recommended that Treasury provide additional guidance or technical assistance to the grantees on how to accurately and meaningfully calculate the results of the impact measures. Treasury stated that it concurred with the observations in our report and plans to provide grantees with supplemental guidance on impact measures before the next reporting deadline.

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<sup>13</sup>GAO, *Financial Education and Counseling Program*, [GAO-11-737R](#) (Washington, D.C.: July 27, 2011).

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## Our Work Has Identified Shortcomings in the Implementation of Some Homeownership Counseling Requirements

In prior work, we found shortcomings in HUD's and Treasury's implementation of homeownership counseling requirements for the HECM and HAMP programs. In 2009, we evaluated HUD's implementation of the counseling requirements associated with the HECM program and found that HUD's internal controls did not provide reasonable assurance that counseling providers were complying with the program requirements.<sup>14</sup> GAO's undercover participation in 15 HECM counseling sessions found that while the counselors generally conveyed accurate and useful information, none of the counselors covered all of the topics required by HUD, and some overstated the length of the sessions in HUD records. For example, 7 of the 15 counselors did not discuss required information about alternatives to HECMs, and 6 of the 15 counselors overstated the length of the session. HUD had several internal controls designed to help ensure that counselors conveyed required information to prospective HECM borrowers but had not tested the effectiveness of these controls and lacked procedures to help ensure that records of counseling sessions were accurate. Because of these weaknesses, some prospective borrowers may not have received all of the information necessary to make informed decisions about obtaining a HECM.

We recommended specific changes that HUD should make to improve the effectiveness of the agency's internal controls so that they provided reasonable assurance of compliance with HECM counseling requirements. Since our report, HUD has implemented our recommendations by creating additional internal controls and guidance for counselors on how to comply with program responsibilities, as well as developing a "mystery shopping" initiative to better evaluate compliance among HECM counselors.

In 2009, we also evaluated Treasury's implementation of the foreclosure mitigation counseling requirements of HAMP.<sup>15</sup> We found that Treasury did not plan to systematically track borrowers with high debt burdens, who were required to obtain foreclosure mitigation counseling, to determine

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<sup>14</sup>GAO, *Reverse Mortgages: Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers*, [GAO-09-606](#) (Washington, D.C.: June 29, 2009).

<sup>15</sup>GAO, *Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable*, [GAO-09-837](#) (Washington, D.C.: July 23, 2009).

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whether they actually received counseling or if it was effective. Treasury officials told us that they made this decision because they did not want to deny a loan modification to borrowers who successfully made modified payments during a 90-day trial period but did not obtain counseling. Treasury also did not want to delay modifications under the program until servicers had arranged to coordinate with counselors to track whether borrowers obtained counseling. We noted that without knowing whether borrowers who were required to obtain counseling actually did so or evaluating the performance of counseled and noncounseled borrowers, Treasury would not know whether the requirement was meeting its purpose of reducing redefaults among borrowers with high debt burdens.

We recommended in 2009 that Treasury consider methods of monitoring whether borrowers required to receive housing counseling as part of HAMP modifications did receive it and seek to determine whether the counseling did limit redefaults. Treasury staff said in 2010 that they had considered options for monitoring the proportion of borrowers that obtained counseling but had determined that implementing a monitoring process would be too burdensome for Treasury and mortgage servicers. Additionally, Treasury officials said they had no plans to assess the effectiveness of counseling in limiting redefaults, in part because they believed that the benefits of counseling on the performance of borrowers with high debt burdens were well documented. We continue to believe that monitoring the extent to which borrowers receive counseling and the redefault rates for counseled and noncounseled borrowers would provide valuable information about whether the counseling requirement is having its intended effect.

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## HUD is Creating a New Office for Its Housing Counseling Activities, but Funding Is Uncertain

To enhance consumer protections for homebuyers and tenants, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires HUD to establish an Office of Housing Counseling.<sup>16</sup> This office is mandated to perform a number of functions related to homeownership and rental housing counseling, including establishing housing counseling requirements, standards, and performance measures; certifying individual housing counselors; conducting housing counseling research; and performing public outreach. The office is also mandated to continue HUD's role in providing financial assistance to HUD-approved

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<sup>16</sup>Dodd-Frank Act, sec. 1442 (codified at 42 U.S.C. sec. 3533(g)).

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counseling agencies in order to encourage successful counseling programs and help ensure that counseling is available in underserved areas.

Currently, HUD's housing counseling program operates out of the Program Support Division within the Office of Single-Family Housing.<sup>17</sup> HUD supports housing counseling through the division in two ways. First, it approves and monitors housing counseling agencies that meet HUD criteria and makes information about these agencies available to consumers on HUD's website. According to HUD officials, as of August 2011, about 2,700 counseling agencies were HUD-approved. Second, HUD annually awards competitive grants to approved agencies to help them carry out their counseling efforts. HUD's housing counseling program provides funding for the full spectrum of housing counseling, including prepurchase counseling, foreclosure mitigation counseling, rental housing counseling, reverse mortgage counseling for seniors, and homeless assistance counseling. HUD-approved agencies report to HUD on the number and type of service interactions (e.g., counseling sessions) they have with clients. Self-reported data on homeownership counseling conducted by these agencies indicate that service interactions for foreclosure mitigation counseling rose from about 171,000 in 2006 to more than 1.4 million in 2010, while service interactions for prepurchase counseling declined from about 372,000 to about 245,000 over the same period.<sup>18</sup>

Besides these two main functions, the Program Support Division and other HUD staff perform other counseling-related activities, some of which are similar to the functions the Dodd-Frank Act requires of the new counseling office. For example, HUD has developed standards and protocols for reverse mortgage counseling, certifies individual reverse mortgage counselors, is conducting research on the impact of

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<sup>17</sup>The Program Support Division has staff in HUD headquarters in Washington, D.C., and in HUD's four homeownership centers located in Atlanta, Georgia; Denver, Colorado; Philadelphia, Pennsylvania; and Santa Ana, California.

<sup>18</sup>Counseling agencies may have multiple service interactions with the same client. Some of the HUD-approved counseling agencies that report service interaction data do not receive HUD funds, and those that do receive HUD grants also rely on other funding sources, according to HUD officials. As a result, the service interaction data do not represent solely the counseling services provided with HUD funds.

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homeownership counseling, and recently launched a public awareness campaign on loan modification scams.

A working group within HUD is in the process of developing a plan for the new counseling office. According to HUD officials, the primary change needed to create the new office is the reassignment of staff who spend time on housing counseling activities but also have other responsibilities. In July 2011, we reported that HUD expected the new office to consist of approximately 160 full-time staff members, but HUD has indicated more recently that the office may be considerably smaller. In order to move forward with the establishment of the office and the appointment of a Director of Housing Counseling, HUD must submit a reorganization plan to Congress. According to a HUD official, HUD is still developing its proposal for the new counseling office and is unable to estimate when it will be submitted to Congress.

HUD officials told us that the new counseling office would have advantages over their current organizational structure. They indicated that having dedicated resources, staff, and leadership would raise the profile of the housing counseling function and help the agency build a more robust capacity in this area. One official noted that getting sufficient information technology resources for housing counseling had been difficult and said that a separate counseling office might be able to compete more effectively with other parts of the agency for these resources. HUD officials also indicated that the new office would be organized to help the agency better anticipate and respond to changing counseling needs and improve interaction with counseling industry stakeholders. For example, the officials said that the new office would be organized around functional areas such as policy, training, and oversight, making it easier for industry stakeholders to direct their questions or concerns to the appropriate HUD staff. Additionally, HUD officials told us that the office would work with the Bureau of Consumer Financial Protection's Office of Financial Education to coordinate the housing counseling activities of both organizations.

Mortgage industry participants, consumer groups, and housing researchers we spoke with were supportive of the new housing counseling office and believed that it offered opportunities to enhance HUD's role in the housing counseling arena. For example, some of the consumer groups stated that the office could help standardize counseling practices and publicize best practices, further elevating and professionalizing the counseling industry. In addition, representatives from several of the consumer groups and researchers with whom we met

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stated that the office could help enhance coordination among counseling agencies by providing opportunities for improved training, networking, and communication. Furthermore, they said that the office could potentially support improved data collection for research on the impact of housing counseling.

Budget constraints could affect the establishment of the new counseling office and reduce the scale of HUD's housing counseling activities. Although the Dodd-Frank Act authorized \$45 million per year through 2012 for the operations of the new office, HUD had not received any appropriations for this purpose as of August 2011. In addition, appropriations for fiscal year 2011 eliminated HUD's housing counseling assistance funds, which are primarily grant funds for approved counseling agencies.<sup>19</sup> HUD officials said they planned to award and obligate about \$10 million in unspent fiscal year 2010 counseling assistance funds in the 2011 fiscal year. However, the officials said that some counseling agencies had already reduced the level of services they provided due to the elimination of the fiscal year 2011 funds. Housing counseling groups we spoke with said that the cuts in HUD funding, which they use to leverage private funds, ultimately could result in fewer counseling services for prospective and existing homeowners unless private funds make up the difference.

Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

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## Contact and Staff Acknowledgments

For further information on this testimony, please contact me at (202) 512-8678 or [cackleya@gao.gov](mailto:cackleya@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Steve Westley, Assistant Director; Randall Fasnacht; Alise Nacson; and Emily Chalmers.

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<sup>19</sup>In fiscal year 2010, HUD was appropriated \$88 million for housing counseling assistance. The President's budget for fiscal year 2012 requests \$88 million for HUD housing counseling assistance.

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# Related GAO Products

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*Financial Education and Counseling Program.* [GAO-11-737R](#). Washington, D.C.: July 27, 2011.

*Mortgage Reform: Potential Impacts of Provisions in the Dodd-Frank Act on Homebuyers and the Mortgage Market.* [GAO-11-656](#). Washington, D.C.: July 19, 2011.

*Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable.* [GAO-09-837](#). Washington, D.C.: July 23, 2009.

*Reverse Mortgages: Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers.* [GAO-09-606](#). Washington, D.C.: June 29, 2009.

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