July 9, 2014

The Regulations Division
The Honorable Helen R. Kanovsky
Office of the General Counsel
Department of Housing and Urban Development
451 7th Street SW Room 10276
Washington, DC 20410-0001

Department of Housing and Urban Development www.regulations.gov

Dear Ms. Kanovsky:

On behalf of NeighborWorks® America (also known as the Neighborhood Reinvestment Corporation) I want to thank the Department of Housing and Urban Development for the opportunity to provide comments regarding the Federal Housing Administration’s Homeowners Armed With Knowledge (HAWK) initiative.

Given that the rule is currently pending before a NeighborWorks America board agency, these comments have not been submitted to or approved by NeighborWorks America’s board. These comments reflect the view of NeighborWorks America management and do not necessarily represent the views of its board members, either collectively or as individuals. These comments have been formed in consultation with a number of NeighborWorks America’s more than 240 local and regional nonprofit affiliated NeighborWorks organizations, and with the insight and experience garnered from the NeighborWorks Center for Homeownership Education and Counseling (NCHEC).

NeighborWorks America and its network are extremely effective in helping low and moderate-income families and communities. Together, NeighborWorks and its network assisted almost 300,000 families with their housing needs in FY 2013 alone, including creating 21,000 new homeowners, owning and managing 108,000 units of affordable rental housing, and providing counseling and education to 109,400 families on home-buying and homeownership preservation.
NeighborWorks America is a respected leader in housing and community development training, with 35 years of experience in the field. NeighborWorks provides professional training and certification to staff and board members of nonprofits, housing finance agencies, public housing authorities, and various municipal and state agencies. In FY 2013, NeighborWorks America awarded over 20,000 training certificates to professionals from more than 3,500 organizations and municipalities at four NeighborWorks Training Institutes, through e-learning, and at over 160 Place Based Trainings.

The NeighborWorks Center for Homeownership Education and Counseling (NCHEC) provides training, certification and continuing education for housing counseling practitioners throughout the country, and also delivers an array of other professional tools and resources. NCHEC also develops and provides all of the training to foreclosure intervention counselors under the National Foreclosure Mitigation Counseling (NFMC) program. Further, NCHEC provides courses and online resources to promote the effective use of Home Equity Conversion Mortgages (HECM), supported by a cooperative agreement with HUD. NCHEC awarded more than 10,000 training certificates to housing counseling nonprofit practitioners from more than 2,500 organizations in FY 2013.

Making sure that American families and individuals obtain sustainable lending products for homeownership remains a priority issue for NeighborWorks America. Our network of more than 240 NeighborWorks organizations (NWOs) helps families and individuals meet their home buying needs. The vast majority -- 95 percent -- provide homebuyer education and counseling services.

As cited by the HAWK proposal, peer-reviewed, third-party research released in March 2013 by Neil Meyer and Associates and Experian shows that working with a NeighborWorks organization when purchasing a home reduces by one-third the likelihood that homebuyers will fall seriously delinquent on their mortgages within two years of origination.

NeighborWorks America’s National Foreclosure Mitigation Counseling (NFMC) program has proven itself to have a positive impact on homebuyers facing foreclosure. A 2011 evaluation of the NFMC program, conducted by the Urban Institute, found that that homeowners receiving NFMC assistance are more likely to receive a loan modification, have loan modifications that result in monthly payments that are on average $176 less than non-counseled homeowners, and are at least 67% more likely to remain current on their mortgage nine months after receiving a loan modification cure. As of May 31, 2014, 1,761,249 homeowners have received NFMC counseling since January 1, 2008.
Given this research and the positive experience of our network organizations, NeighborWorks America is pleased that HAWK will provide another opportunity for rigorous analysis of outcomes relating to counseled borrowers. Additional analysis of the value of counseling to borrowers, lenders, servicers, investors, and guarantors should provide valuable information to lead to the successful implementation of counseling opportunities for all borrowers that need it.

NeighborWorks America supports the proposed HAWK pilot program released by HUD as part of an effort to expand credit access to underserved borrowers, especially minority and low-wealth borrowers and, most importantly, to integrate counseling into the home buying process and ensuring broad access to housing counseling services. Our comments, recommendations, and questions are outlined below.

**Eligibility**

The HAWK pilot as proposed would be eligible only to first-time homebuyers as defined by FHA – that is, an individual who has not been an owner in a primary residence for at least three years leading up to the purchase. NeighborWorks supports broadening the eligibility for borrowers to all potential FHA borrowers. While it may be that HAWK would primarily serve first-time borrowers, others should also be eligible to participate in the program. The demonstration presents a great opportunity to create and test the incentives for all borrowers who want or need homebuyer-related financial education and counseling.

**Marketing the pilot to real estate professionals and consumers**

Marketing the HAWK pilot will be essential to its success. Outreach to both consumer and real estate professionals will be critically important. HUD should consider all channels of marketing that would reach first-time and other homebuyers, including traditional media marketing as well as channels that may reach more younger buyers, such as Facebook, Twitter, Instagram, YouTube, or even the development of an “app,” to show the financial benefits of the counseling as well as linking the borrower to HUD-approved counselors and counseling agencies.

FHA could utilize real-life counseling success stories, fliers, postcards, e-cards, posters, print advertising, local PSAs, events, word of mouth, and social media activity to build customer interest in HAWK. It will be very important that the benefits and savings of counseling and specifically the HAWK program are well publicized. The collateral materials should be culturally sensitive and ideally would be multi-lingual. Toolkits could be created for real estate professionals and counseling agencies that could be customized with brand, logos, and contact information. The tool kits could be accessible through a HAWK promotional web site or could be purchased on-demand.
Coordination with other non-FHA benefits such as down-payment assistance or products with reduced credit overlays

The HAWK program requirements and rules should clearly state that the use of different home purchase assistance programs such as down-payment assistance, interest-rate reductions, reduced credit overlays, etc. are permissible.

Content, duration and timing of housing counseling and education

NeighborWorks supports the content and duration of the counseling and education requirements for pre-contract, pre-closing, and post-closing as outlined in the proposed pilot. The proposed requirements align with those utilized by the NeighborWorks Center for Homeownership Education and Counseling (NCHEC).

With regard to pre-contract housing counseling timing (Section II. C. 4. a. iii.) the proposal suggests that the pre-contract housing counseling and education certificate must be issued 10 days prior to ratification of a contract to purchase a home. Given that many closing dates change due to varying circumstances, it would be preferable if the certificate were to be issued at least 10 days prior to ratification of a contract.

Regarding pre-closing housing counseling content (Section II. C. 4. b. ii) and timing (iii), the pilot should encourage the use of final, or close to final, closing documents for the discussion of general expectations for the closing process including the review of the GFE, TILA statement, loan disclosures and other mortgage and closing documents, third party services and costs, to the extent that it is possible. The proposal suggests ‘general expectations’ of the closing process, but to the degree that specifics are available regarding the actual loan documents for the borrower/s and their actual earnest money, appraisals, title insurance, property and casualty insurance, inspection, escrow requirements and terms are available within the time frame of the required counseling, it would be more valuable to the borrower/s. More specificity or clarity on the timing of the pre-closing counseling may be helpful to determine whether the counselor should be reviewing the actual final documents and disclosures or if it is permissible to review the documents that were provided at application.

Paying for housing counseling and education

Under the HAWK demonstration proposal, housing counseling agencies will have flexibility to provide the level of services and the modes of delivery that they think is appropriate to meet the needs of the consumer. Perhaps due to the flexibility envisioned, it is hard to estimate the staff time, charges, and funding that will be required to provide the services for the consumers. More importantly, because the resources for paying for housing counseling and education are already limited, and borrowers, lenders and others are not required to pay, the need for other sources for funding may become readily apparent at the outset.
On the other hand, NeighborWorks America is concerned that the HAWK pilot will not be taken up in great numbers. First, while consumer/borrowers should see any payments for the cost of counseling and education recouped through the mortgage insurance premium (MIP) reductions, the levels of reduction may not be generous enough nor frequent enough to really incentivize the consumer to take up and sustain counseling.

Additionally, there may be skepticism from the lending community given that they are to absorb much of the cost of counseling. While a counseled borrower is a better borrower, lenders may decide through cost-benefit analysis that an amount similar to the cost of counseling would be better spent on marketing to attract more borrowers to whom they would make more loans/profits. Therefore, a clearer non-monetary incentive for lenders, such as CRA “credit” for insured depositories, may be necessary for the success of the pilot. In the event that lending institutions are not incented strongly enough, there may be constraints on the program unless other funding such as HUD counseling grants, other government sources, individual, corporate, or foundation giving is able to directly support the HAWK pilot.

In sum, NeighborWorks recognizes that lining up and sourcing the payment and funding structures is key for the success of the HAWK program. Particularly in the beginning, the need for additional sources of housing counseling funds to support the program is likely. However, without targeted marketing resources and added incentives for consumers and lenders, there may not be the additional demand and attendant costs to be borne by housing counseling agencies.

**Sufficiency of the incentives to attract homebuyers to obtain housing counseling services**

As the previous section notes, despite the benefits of counseling to lenders and borrowers alike that have been proven by several studies, it is not clear that the financial incentives in the HAWK pilot as proposed are strong enough for the consumers/borrowers to seek out counseling. The 50 basis point reduction in the up-front premium, while substantial, may not be visible to borrowers since the premium will in most cases be financed into the borrower’s mortgage. The 10 basis-point reduction in the monthly premium, will not result in a large reduction in the monthly payment of the borrower. Given its size, it will also not necessarily greatly enhance the borrowers’ ability to qualify for the financing for a loan. Balanced against the time required for counseling and education -- however intrinsically valuable and effective -- and the costs to be absorbed by the borrower (estimated in the rule to be a total of $300 for counseling and education for the pre-contract services) the borrower may not find the cost-benefit calculation favoring counseling.
As the pilot suggests the amounts may be adjusted, we would recommend additional incentives such as an increase in the pre-closing monthly MIP reduction and speeding up the time frame for post-closing monthly MIP reductions so that the consumer/borrower will see more immediate rewards in the monthly payment. This approach would more likely drive consumers to participate in counseling and education. Another suggestion would be to consider a glide path to MIP elimination in line with allowable cancellation of mortgage insurance requirements at below 80% LTV.

**Ways to mitigate fraud and risk in the pilot**
NeighborWorks supports clear direction for housing counseling agencies, counselors, lenders and others in the pilot phases of the program. Specific guidance will be useful not only for ensuring that legitimate providers can operate within the bounds of the program. It will also make it easier to uncover those attempting to commit fraud or scam borrowers. The HAWK program may find it useful to use the models in marketing and reporting presented by the successful Loan Scam campaign, coordinated by NeighborWorks America. More information can be found at http://www.loanscamalert.org/.

**Program coordination, operations and systems requirements**
NeighborWorks strongly supports the development of a clear, concise payment infrastructure. For example, the HUD-1 could have an additional explicit line/s to facilitate the appropriate execution of the integrated counseling mechanics. In lieu of an adapted HUD-1, NeighborWorks would suggest that HUD provide counseling agencies and settlement service providers with thorough guidance for appropriately filling out the settlement statements/closing forms to fulfil the transactional parts of providing the counseling.

Given the pilot nature, it is not clear how will HUD be keeping track and communicating in what stage the pilot is operating. Specifically, near the end of the pilot (where the limit on the number of loans will become relevant) how will a counseling agency know if a prospective customer is able to participate?

Finally, due to the nature of the data and the need to certify the counseling of individuals, there will be a need for strong data integrity and support teams to troubleshoot and provide customer services to lenders, borrowers and consumers. The HAWK pilot will require a properly-operated technological infrastructure to be successful. We recommend a dedicated staff to service and manage the HAWK pilot along with a robust data system to ensure its success.
Program evaluation
NeighborWorks supports the comprehensive evaluation of the results of the HAWK pilot and the Demonstration being conducted simultaneously by the Office of Policy Development and Research at HUD as described by the proposal. Such rigorous analyses will be useful in determining the efficacy of certain modalities of counseling, the impact of counseling overall on loan performance, and the impact on the MMI Fund. Learning from the HAWK pilot program should benefit not only future borrowers served by the FHA MMI Fund, but can also be translated into similar successful programs for borrowers served by the conventional mortgage market.

Background information regarding NeighborWorks America
NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The Corporation receives a direct annual federal appropriation. The Corporation’s Board of Directors is made up of senior representatives of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; the Comptroller of the Currency; the National Credit Union Administration) and the U.S. Department of Housing and Urban Development.

The primary mission of NeighborWorks America is to expand affordable rental and homeownership opportunities and to strengthen communities across the United States. NeighborWorks America provides support to more than 240 local and regional community-based NeighborWorks organizations, as well as training and service to the broader community development field. NeighborWorks organizations serve urban, suburban, and rural communities in all 50 States, the District of Columbia, and the Commonwealth of Puerto Rico.

Closing comment
In closing, NeighborWorks America would like to thank the Department of Housing and Urban Development for issuing the HAWK pilot program that will integrate counseling into the home buying process and ensure broad access to housing counseling services. NeighborWorks America supports the program. With some refinements, HAWK will benefit counseling agencies, counselors, and, most importantly, the consumers/borrowers in need of comprehensive housing counseling services and education.

Sincerely,

Charles Wehrwein
Acting President and CEO