

Statement of

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(now *doing business as* NeighborWorks® America)**

**Before the
Senate Banking, Housing and Urban Affairs Committee
Economic Policy Subcommittee
(Room 538, Dirksen Senate Office Building)**

**Hearing
“The More You Know, the Better Buyer You Become:
Financial Literacy for Today's Homebuyers”**

May 1, 2008

2:00 P.M.

Chairman Carper, ranking member Bunning and Members of the Subcommittee, my name is Ken Wade. I serve as Chief Executive Officer of NeighborWorks America, and I appreciate the opportunity to talk with you today about the importance of financial literacy (particularly for homebuyers) and the work that NeighborWorks America is doing to help Americans not only buy a home, but stay in their homes and build their futures.

NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation and is the original community/public/private partnership model, with locally-driven, highly-leveraged and efficient community development as its hallmark. Our Board of Directors is comprised of the heads of the federal financial regulatory agencies (the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) along with the Secretary of HUD.

NeighborWorks America works with a national network of 234 community-based nonprofit organizations, serving more than 4,450 urban, suburban and rural communities across the United States -- in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

Let me state at the outset that the importance of quality consumer education and counseling cannot be overstated; particularly when working with low- and moderate-income and/or credit-impaired borrowers, or non-traditional mortgage products.

In talking about financial education, I'd like to highlight five specific areas that NeighborWorks America has focused on:

1. Financial Fitness
2. Pre-purchase Education and Counseling
3. Post-purchase Education and Counseling
4. Training, related to these activities; and
5. National Industry Standards for Homeownership Education and Counseling

1. Financial Fitness:

NeighborWorks America developed its “Financial Fitness” education program to help individuals and families develop sound money management skills. Currently, 90 NeighborWorks organizations are participating in the financial fitness program, and are providing services such as formal classes, individual counseling sessions for personal issues and questions, and peer support groups for continued sharing and learning. The program provides participants with general information about today’s financial system, so that they will have the skills and knowledge to access financial products and succeed within the economy.

Common topics covered in the Financial Fitness program include:

- Setting financial goals and making decisions
- Knowing the importance of savings and investing
- Developing a budget and spending plan
- Tracking expenses
- Getting credit and using it wisely
- Understanding and repairing credit reports, stressing the importance of paying bills on time
- Using banking and other financial services
- Protecting oneself against consumer scams and predatory lending

Financial education is a critical need both for consumers and for communities. For consumers, financial education is the key to protecting their assets and building wealth — regardless of their incomes. For communities, financial education programs can help promote stronger and more stable neighborhoods, where residents are more resistant to downturns in the economy and other financial threats.

Financial education can help families avoid common pitfalls, and help them to learn the financial management and planning skills needed to make the most of their income, savings and assets.

A recently released study, *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum Upon Consumers’ Behavior and Confidence*, (conducted by the FDIC, and administered by the Gallup Organization) revealed the following about our program participants:

- Over 50% realized a reduction in debt
- Retirement account payments increased from 14% to 31% participation
- 69% increased savings;
- 84% reduced the number of credit cards currently accessible;
- 91% feel in control of their money
- 95% that used a budget at end still use one

In addition to supporting the 90 NeighborWorks organization currently involved in this initiative:

- NeighborWorks America offers Financial Fitness training at NeighborWorks Training Institutes, four times each year. Since 2001, more than 900 counselors have been trained through this course.
- A Financial Fitness e-learning pre-requisite course for practitioners has been developed to optimize facilitated classroom learning; and
- A web-based reporting tool has been developed to accurately track the work of all 90 participating organizations.

2. Pre-Purchase Education and Counseling

NeighborWorks America, as a national public nonprofit organization working to expand affordable housing opportunities and revitalize communities, has a 30-year history of supporting lending to non-conforming borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase housing education and comprehensive individual counseling to more than 500,000 first-time and ethnic minority buyers and by working with borrowers to improve their credit rating, when warranted, local NeighborWorks organizations are able to prepare borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

It's important to point out, particularly in this time of rising foreclosure rates, that NeighborWorks America has been tracking the loan performance of the many families assisted by NeighborWorks organizations over the years, and these loans continue to perform well.

Our research has shown that the best defense against delinquency and foreclosure (or having a borrower obtain an inappropriate mortgage product, or a predatory loan) is objective education and advice before the borrower begins shopping for a home and selecting a mortgage product. And our research has shown that the best comprehensive homeownership counseling is provided through third-party nonprofit agencies (including local NeighborWorks organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interests first. We have also found that homeowners' odds of success are increased even further when they have access to post-purchase counseling and homeowner education.

3. Post-Purchase Education and Counseling

While housing education and counseling before the purchase of a home is definitely one of the best defenses against foreclosure, unfortunately that advice comes too late for the many families already in a problematic mortgage product or currently facing foreclosure.

Post-Purchase education and counseling has long been a vital part of NeighborWorks America's homebuyer education process because it supports successful long-term homeownership.

All local NeighborWorks affiliates include post-purchase education and counseling in their range of services, and NeighborWorks America is a leader in providing post-purchase training and certification at its national NeighborWorks Training Institutes and through the NeighborWorks Center for Homeownership Education and Counseling.

For some buyers the move from renting to owning can be an easy transition, but for others it's a challenging path through unanticipated repairs, life crises (illness, loss of a job, divorce, death of a spouse) or other financial difficulties -- that sometimes end in foreclosure.

Post-purchase education and counseling help homeowners maintain the financial balance needed to continue as successful homeowners.

Post-purchase education and counseling help new homeowners learn how to maintain the home they're in and keep up with the payments. In the recent era of "too-easy credit", it's also important for new homeowners to understand how important it is to resist the many offers they will receive for credit cards, refinancing, home improvement loans, etc. Post-purchase counselors typically advise against taking on any new debt for at least a year after buying a home, to make sure the family is able to handle the mortgage payments and other costs associated with homeownership.

Counselors also urge homeowners to budget for an "emergency fund" to set aside to pay their mortgage and other bills if they run into unanticipated financial trouble.

Post-purchase education and counseling has also proven to be critically important in helping delinquent borrowers establish a budget, set priorities and find the most appropriate strategies to cure delinquencies and avoid foreclosure.

The FY 2008 Consolidated Appropriations Act named NeighborWorks America to administer the National Foreclosure Mitigation Counseling program, which gives borrowers facing foreclosure the opportunity to work with trained counselors to work through problems that would otherwise result in the loss of their homes

4. Training

NeighborWorks America's commitment to quality, objective homeownership education and counseling is evidenced through the founding of the NeighborWorks Center for Homeownership Education and Counseling (NCHEC) to train and certify housing counseling practitioners.

Since its launch in 2004, NCHEC has issued nearly 25,000 certificates of completion to housing counseling professionals in pre and post purchase education and counseling courses focused on homeownership and community lending, including more than 5,500 staff from HUD-approved counseling agencies. Counselors are encouraged to pursue professional development through targeted individual certification in pre-purchase homeownership education, individual homeownership counseling, post-purchase education and foreclosure intervention, and a cadre of other relevant topics.

Our experience demonstrates a strong need to strengthen capacity, specialized training and service delivery protocols for HUD-approved counseling agencies – particularly in the area of foreclosure intervention counseling, which requires an integral understanding of loss mitigation processes coupled with skilled customer service practices to achieve results.

In a survey of 1,800 participants, responding 3 to 18 months after they had attended NeighborWorks America sponsored training:

- 96 percent reported that the knowledge gained at the Institutes enhanced their work skills.
- 95 percent said that their Institute training had a positive effect on their work performance.
- 85 percent revised or improved existing work practices based on what they learned at the Institutes.
- 82 percent reported an increase in the number of resources they can use.
- 81 percent were more confident in their ability to perform their job as a result of their training.

The same evaluation found that 80 percent said their training improved how their organization operates.

Finally, the knowledge gained from training meant positive benefits for the community as well. Seventy-three percent indicated that their organizations became more effective in the community or with clients they serve as a result of the NeighborWorks training received.

5. National Industry Standards for Homeownership Education and Counseling

To ensure that consumers have access to the highest quality pre- and post-purchase homeownership education and counseling, NeighborWorks America, together with our partners, has developed National Industry Standards for Homeownership Education and Counseling. The National Industry Standards, a set of uniform guidelines, advance the highest quality of service across core areas ranging from competency of the counselor to performance in the delivery and recordkeeping.

Organizations including local, state and national housing counseling organizations; financial institutions, mortgage insurance institutions, the GSEs and government entities are encouraged to endorse and adopt the National Industry Standards and National Industry Code of Ethics and Conduct. These standards are a first step in evolving efforts to professionalize the homeownership education and counseling industry. To date, hundreds of organizations (including HUD, Fannie Mae, a significant number of major financial institutions and hundreds of counseling agencies) have endorsed these Standards.

These National Standards will play a vital role in ensuring consistency for consumers, and making homeownership education and counseling more broadly available will help borrowers make informed choices.

Closing

In closing, let me state that it is our strong belief that an informed consumer/homebuyer, knowledgeable of all of the options available to them, is the key to sustaining and strengthening both the family and the community.

NeighborWorks America has demonstrated, as have other nonprofit counseling agencies across the country, that pre-purchase education and counseling make a real difference in terms of preparing consumers for the responsibility of sustainable homeownership.

And post-purchase counseling provides the help needed when families hit unexpected problems or face major challenges – including the prospect of foreclosure.

The availability of high quality, unbiased financial education and pre-purchase and post purchase housing counseling continues to be a critically important element – and funding this important service continues to be an industry-wide challenge.

I thank you for the opportunity to speak with you, and stand ready to answer any questions you may have.
