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I am Executive Director of the nonprofit 501(c) (3) Delaware Financial Literacy Institute, the home of the Delaware Money School. The Money School is a unique program providing free financial education across the state. With a volunteer faculty of over 125 professionals, more than 600 classes and events ranging from basic budgeting, credit repair, business startup, and home ownership were offered to a diverse community of learners in 2007.

In my position, I have followed what has been called "exotic and toxic" (Consumer Federation of America) mortgage dilemmas and tragedies that have been unfolding. I appreciate this opportunity to share my experiences and recommendations and those of my partners in Delaware.

Most of us grew up believing home ownership is the American Dream. If this was not our belief, friends and family encouraged us, pushed us to dream of owning our own homes one day. We'd hear, "Stop renting; you're throwing your money away! Buy a house, be the king of your own castle, play loud music if you want, paint your walls any color you wish; it's an investment in your future and the future of your family."

For many, that dream could become – and recently did become – a nightmare as buyers bought as fast as builders could build and sub-prime, politely called "non-traditional" products, took center stage.

It's strange that we have to study to get a driver's license and a real estate license, and now even to declare bankruptcy, but many people do little more than scan the internet, the multiple listings, or drive around to look for their first home.

No wonder the sub-prime market blossomed: for those who never thought it possible to own a home, it was hard to resist the allure of huge billboards, commercials, and ads that boasted NO MONEY DOWN! LET US PUT YOU IN THE HOME OF YOUR DREAMS TODAY! In our culture of instant gratification, many were tempted by these adjustable rate mortgages and didn't think or didn't know to worry about the balloon payment and penalties down the road and their ability – or inability – to pay.

With low or zero down payments and lax document and credit checks, many jumped at this chance to become instant home owners. Often these first time homebuyers were led to believe that owning would be cheaper than renting – sometimes true, sometimes not – buyers did not always check the fine print or their capacity to pay mortgages and living expenses before jumping on the inviting mortgage terms. Little thought was given to costs such as taxes, trash removal, maintenance, upkeep, utilities, the furniture to fill the dream house, and the inevitable emergencies – what seemed like a monthly payment they could just barely afford spiraled out of control.

Often new homebuyers lack an understanding of the traditional and the sub-prime markets; they do not have a grasp of the fundamental concepts to deal with money. Zero or low down payment options provide opportunities for more consumers to get into the housing market, but pose risks due to the higher monthly payments. The complexity and variety of mortgage choices require consumers to take an active, informed role when evaluating products. Without training or education, making personal financial decisions can be a confusing, frustrating, and even dangerous road to maneuver.

As volunteers for the Money School, many housing agencies offer introductory classes covering the basics of financial education, but the potential buyer must avail himself of the opportunity for education and the counseling that comes with it. Some potential buyers decide it's not worth the \$50-\$200 fee for financial education and one-on-one counseling. It is difficult to accept that such a small amount in relation to the cost of the biggest purchase in most people's lives is enough to turn away potential students because not only do these buyers forfeit the counseling, they lose something equally valuable: the opportunity to have a knowledgeable and unbiased person answer their questions and help them review products and understand the fine print and lead them through the complicated process of buying a home. They do not have a counselor to explain that though they were pre-qualified for say, a \$400,000 mortgage, they would not be able to maintain the payments on a home priced that high, a counselor who might say, wait 4-6 months and you will be able to qualify for a more traditional mortgage and a home you can more realistically afford.

It's ironic that laws mandate those declaring bankruptcy complete basic financial education but not all first time home buyers are required to participate in financial education.

Required financial education for all first time homebuyers, not just for those with special products, should include:

- Budgeting – what it means to *live within your means*, the concept of spending less than you earn, a clear understanding of one's finances, income and expenses.
- Next goal setting. Where do you want to be 1-2-3-5 or 10 years down the road?
- The concept of paying yourself first – learning to put money aside before you spend, money for education, the future, money for opportunities and money for emergencies such as a leaking hot water heater.
- The wise use of credit, building a positive credit history by repairing poor credit and improving credit scores, credit and debt management.
- Banking Basics – shopping for the account that suits your needs and your pocketbook.
- Being a responsible renter – and how it affects home buying.
- Rational decision making – looking at the costs and benefits of financial choices.
- Loan products and predatory lending practices.
- And, last but not least, learning to identify the people in the community who can help with financial decisions.

Housing counselors in Delaware, many of them instructors in the Delaware Money School, teach these basics, often called "Financial Fitness." Most also offer a seminar with the major players: a mortgage broker, a realtor, an attorney, a home inspector, and an insurance agent...and the opportunity to ask questions, to learn about PMI and points and traditional and nontraditional mortgage products. Targeted and personal financial education itself often comes during the one on one counseling. With concerns for the Privacy Act and buyers with varying levels of knowledge, education is often best provided on an individual basis. With the majority of Delaware's housing counselors certified by Delaware Federation of Housing Counselors, first time home buyers who put in the time and effort will learn what to expect during the process and what questions to ask. They will learn about prepayment penalties and what to look for on the pre-purchase HUD 1 report; they will learn about PMI and points. They will have someone help them review and evaluate mortgage documents. They will have someone to call with questions.

There are books on the market such as *Home-buying for Dummies* and *The Idiot's Guide to Buying a First Home*. There are even internet sites such as getdownpayment.com where a home buyer can learn the basics of home ownership – if he or she is willing to do the work.

Whatever the means, potential homebuyers must have a grasp of basic financial concepts and be able to grasp the meaning of mortgage terms and understand the necessity to read and understand the mortgage documents and requirements...and to ask questions when they do not understand.

Delaware Bank Commissioner Robert Glen and his Deputy Gerry Kelly have worked tirelessly on preventing foreclosures and building awareness of predatory practices.

From their experiences and from those we have had with Delaware Money School students, we find that homebuyers who have had basic financial education, counseling, and access to counselors are significantly less likely to go into foreclosure because they learn to make wiser mortgage choices.

The Delaware Money School, with funding from the Citi Foundation, created a unique ongoing financial education program called *From Purses to Portfolios*, targeting low to moderate income women and providing women not only with financial knowledge but also a cadre of professionals a phone call away willing to provide free and knowledgeable financial counseling to prepare for home ownership.

Discover Bank has approached the Money School to develop a housing program for Kent County which has the highest foreclosure rate in Delaware. Discover, Bank of America, and State Farm provide funding for a financial education summit for high school juniors.

JPMorgan Chase has provided funding for the Money School to teach asset building and financial concepts to at risk youth.

One strategy developed by PNC Bank, Interfaith Housing of Delaware, and NeighborWorks Home Ownership Center is worth mentioning here. The PNC Homebuyers Club offers an 11 week series of meetings with dinner and childcare provided. The series provides education on the home buying process, financial management, credit repair, spending plans that include saving, and the opportunity to compare lenders and mortgage products and services. The duration of the Club helps buyers become acquainted with counselors, and repair their credit, if necessary, so they can be directed toward more conventional type mortgages. The counselor and homebuyer actually looking at specific mortgage products and what best suits the buyers' needs; there is time to judge the merits of waiting to qualify for a mortgage with better terms, terms the buyer is more likely able to meet.

Some housing programs include a post purchase class covering basic home maintenance guidelines as well as learning the perils of losing the equity in the home through misuse of home equity and second mortgages. Few new homebuyers take the time to pursue post purchase education since they now have their homes. But it is critical that homeowners be aware of tips to avoid bleeding out the equity in their homes through overuse and misuse of second mortgage and home equity loans. Counselors lament that once the homebuyer is in the home, there is little interest in this post purchase education.

To combine what we know works in a cohesive strategy to protect homeownership, my colleagues and I have the following basic recommendations:

- *Low to moderate income first time home buyers should be required to complete basic financial education* including the pros and cons of different types of mortgages and predatory lending as well as one on one counseling with a certified counselor.
- *The paperwork associated with home purchase should be simplified* and made more understandable for the average homebuyer, more on the line of the HUD1 form which should be available earlier in the mortgage process.
- *Home buying counselors must be certified* and required to maintain and update certification.

- Some type of incentive should be offered for *post-purchase education*, perhaps a tax credit as we give for mortgage payments and home energy improvements. We must give homebuyers the tools to hold on to their homes, the American Dream.

I would like to thank Senator Carper and the Senate Committee on Banking, Housing, and Urban Affairs for this opportunity to share my thoughts.