Is there a role for US style homeownership education and counselling in the UK?

Executive Summary of Travel Fellowship
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Executive Summary

This summary outlines the findings of a Travel Fellowship sponsored by the Winston Churchill Memorial Trust into the use and outcomes of homeownership education and counselling, specifically pre-purchase advice and support, offered to new homebuyers in the United States.

The Fellowship sought to establish whether there was a role for such interventions to support new homebuyers in the UK, not least as government policy especially in England is committed to a significant expansion of affordable homeownership at the expense of other housing tenures.

Taking lessons on sustainable homeownership from the US seems at odds with their widespread foreclosure crisis following the 2008 financial crisis. But research evidence points to positive benefits of homeownership education and counselling, and the portion of the US mortgage market that serves low and moderate income households performs better than the wider market.

Reconfiguring existing knowledge and skills within the UK housing and mortgage markets to offer a single point of access to comprehensive neutral advice and support to new buyers, notably those involved with the affordable homeownership sector – to inform their decision to buy, through getting mortgage ready, to the purchase and beyond - has the potential to reap benefits for marginal owners, lenders and providers alike.

Homeownership education and counselling is a longstanding feature of the US housing market. It aims to provide information, advice and support to new homebuyers to ensure sustainable homeownership. The courses provide comprehensive independent tuition on the advantages and disadvantages of owning, how to effectively repair credit and save, what lenders are looking for to get pre-qualified for a loan, how to shop for a mortgage and property, how to appoint professionals that will work for you during the homebuying process, how to sustain homeownership and your investment over the long term, and where to turn if there are problems.

It is uncertain what proportion of new homebuyers in the US participates in pre-purchase education and counselling, but access to publicly supported schemes to help households on low- or moderate-incomes purchase are generally conditional on course attendance. The courses are open to any first time buyers but the main recipients are those on the margins of ownership. Lower-income households have fewer financial and personal resources to draw upon to support their decisions to buy, with lower savings and often with little experience of homeownership among family and friends to draw upon during the process. Evidence suggests that lower income households also have lower levels of financial capability.

The courses were originally seen as helping lower-income households achieve the American Dream of homeownership but now this is balanced with a greater emphasis on sustainability. In the US, building assets through ownership is considered important to close (racial) wealth inequalities, and secure other social benefits claimed for the tenure. Course providers were clear, however, that the curriculum is designed to ensure people make informed tenure choices that are right for them, and are equipped with knowledge to navigate the market and sustain their purchase over the long term.
Research evidence to date suggests positive outcomes of homeownership education and counselling, including lower rates of default and foreclosure and higher credit scores of people who attend the courses compared to new homebuyers who do not. Research is ongoing to identify the most effective method of homeownership education delivery and ensure that the positive results are not impacted by the possibility that different people choose to enter the courses, perhaps those more financially savvy, than do not. The additional ‘high touch’ support that accompanies the courses from not-for-profit agencies and lenders when accessing products designed for low to moderate-income households, as well as the potential for courses to act as screening for lenders, may also contribute to the positive outcomes observed. Whatever the exact mechanism, the part of the mortgage market that specifically caters for low to moderate-income households has performed well in comparison to the wider US mortgage market.

Pre-purchase courses vary by class size, duration, provider, mode of delivery and cost but national standards have been devised to professionalise the sector and ensure consistency in content. Providers, usually not-for-profit local housing agencies, and the individual counsellors are accredited by the US Department of Housing and Development (US HUD). Most courses offer 8 hours of tuition in the evenings or weekends and are most often delivered face-to-face, but online courses are growing and preferred by many homebuyers due to their convenience. Often courses are also offered in different languages. Most education is followed up by individual counselling to consider individual’s personal circumstances and to check their comprehension of the course before a certificate is granted. Lenders and municipalities require homebuyers to provide certificates of completion to obtain favourable loans aimed at low-income households and/or assistance with matched savings schemes or downpayment and closing costs (deposits and transaction fees).

Since the financial crisis, counsellors frequently work with people for longer periods to support them in credit repair and saving for a deposit prior to being considered ‘mortgage ready’. As in the UK, US authorities have introduced more stringent mortgage market regulation following the financial crisis. This was welcomed but not considered to undermine the case for pre-purchase counselling. On the contrary, providers play a greater role in supporting people to overcome greater barriers to credit and savings, advised them of the affordable homeownership options available and how to sustain their home post-purchase.

Various reasons explain the milder UK housing market downturn after the financial crisis (compared to the US), but the UK has not resolved the cyclical nature of the market and, while the government seeks to extend homeownership further, the safety nets for struggling homeowners are simultaneously being weakened. New market regulation in the UK may temper the excesses of previous lending environments, but critical appraisal only applies to one aspect of the homebuying process.

Advice to first time homebuyers, from their decision to buy through to completion and beyond, is often partial, partisan, out-of-date or fragmented across a range of organisations. UK evidence suggests that new homebuyer’s under-estimate the costs of owning, leading some into financial distress, and there are indications that a minority misunderstand the products and lack trust in the finance industry.

US style pre-purchase counselling has the potential to contribute to this gap with mutual benefits arising to homebuyers, housing providers and lenders alike. Lenders and housing providers benefit from increased consumer comprehension of services, with the potential to limit concerns of lenders not active in the affordable homeownership market. It is the increased robustness of consumer
decision making to purchase for marginal households that holds the key benefit, with the potential to reduce the proportion of buyers struggling with mortgage debt and issues of marginal ownership.

Current government policy in England is to support homeownership above other housing tenures. This increases the pressure on providers to expand the low cost homeownership sector and on households to consider home purchase as avenues to secure homes elsewhere is limited. In the context of additional risks due to failing safety nets and the importance of housing equity to personal financial planning, ensuring UK homeownership is 'done right' - as the US government programs aim to do - is an omission from the current policy terrain.

Summary of recommendations

- For agencies involved in low to moderate-income homeownership to adopt a form of pre-purchase education and counselling. This is to support confident and informed decision making in respect of whether to buy, becoming mortgage ready, shopping for a mortgage and property, understanding products, the homebuying process and about maintaining and sustaining the home in the long term.

- Key agencies should convene a working group to consider course content and delivery. Agencies that should be involved and could take the lead include the National Housing Federation, DCLG, Council of Mortgage Lenders and the Money Advice Service.

- At a minimum, an online offer supported by local networks of counsellors should be instituted. Exact forms of delivery, the timing and content are up for negotiation, but at the very least an online offer is likely to appeal, and be cost effective. This should be piloted in selected areas, supported by individual support in person or on the telephone and evaluated over the long-term.

About the Travel Fellowship

The four week trip comprised visits to Buffalo, Albany and New York City (and Long Island) in New York State and a visit to Boston, Massachusetts. It was an opportunity to meet and engage with 33 organisations and events and included mortgage lenders, not-for-profit housing counselling agencies, numerous intermediary organisations involved in affordable housing policy, as well as US academics with expertise in the field. I would like to thank the Winston Churchill Memorial Trust for funding the Travel Fellowship, the many housing professionals that made the trip so memorable and were so generous with their time and support.

The full report can be obtained from the Centre for Housing Policy at the University of York and the Winston Churchill Memorial Trust websites.

About the Winston Churchill Memorial Trust

The Winston Churchill Memorial Trust (www.wcmt.org.uk) is the UK’s national memorial to Sir Winston, and each year the Trust awards Travelling Fellowship grants to UK citizens in a range of fields to enable Churchill Fellows to carry out research projects overseas.

About the National Housing Federation

Travel that was funded under the New Approaches to Social & Affordable Housing stream was offered in partnership with the National Housing Federation (NHF) (www.housing.org.uk). The NHF is the trade body for housing associations in England. The NHF ensures the ideas and recommendations from the Fellowships reach policy makers and other relevant groups.