

Does Homeownership Education and Counseling (HEC) Help Credit Scores?

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ABSTRACT. Raising credit scores is often a key element to pre-purchase counseling for homeownership. This study examined the effectiveness of credit counseling within, homeownership education and counseling (HEC), services on credit scores. The pre- and post-counseling credit scores was obtained for 203 clients. Multiple regression analysis found that while client age, step-in-service delivery system after one year and initial credit score were found to be significant variables, diagnostics suggest that the model needs further theoretical work. Policy goals and practice may need to be altered and alternatives to lower the cost of affordable housing should be considered. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <http://www.HaworthPress.com> © 2005 by The Haworth Press, Inc. All rights reserved.]*

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Public policy in the area of homeownership is increasingly studied and debated. As increasing levels of government funds are spent to encourage homeownership, nontraditional homeownership populations such as the lower income and minorities are increasingly the target of such efforts. Toward that end, a new industry has emerged to meet the needs of such populations. Homeownership education and counseling (HEC) is an industry designed to meet the needs of low-income and minority populations who are seeking to become homeowners. The industry is growing at a rapid pace, yet little evaluation has occurred of this public policy effort. HEC was chosen as one method to meet the public policy goal of expanding homeownership opportunity to lower income households. As the federal government funds this industry at increasing levels of support, policy evaluation is increasingly called for in the professional literature to ensure that funds are having the intended effect (Mallach, 2001; The White House Faith-Based and Community Initiative, 2003).

A key element of pre-purchase HEC is credit counseling. Many low-income and minority families struggle with poor credit scores. Raising credit scores is often a key element to pre-purchase counseling through HEC. Potential home buyers with unfavorable credit scores may be charged as much as 2-3 percentage points higher interest rates on mortgages, may be required to put a larger sum of cash toward a down payment, run the risk of being turned down for home loans or are forced to seek mortgages from sub-prime or predatory mortgage lenders. However, with loan counseling, potential homebuyers can improve their credit score and qualify for credit at the most favorable terms. Even beyond homeownership, credit scores can affect many areas of life, including the ability to access affordable credit to purchase automobiles, employment and housing (Federal Reserve Bank of Philadelphia, n.d. *Your credit rating*).

This paper will discuss the HEC industry and findings of program evaluation research that examined the impact of service contacts with potential homebuyers within credit counseling services on credit scores. The encouragement of homeownership through public policy and the importance of credit information will also be discussed. Background information about the HEC industry, the credit industry, and evaluation research on HEC conducted to date and the difficulties in industry evaluation will also be shared. Limitations of the study will be discussed. Suggestions regarding the most appropriate program evaluation process for the industry within the limitations discussed will be offered. Findings suggest that the goals of the HEC program and program practices

may benefit from re-examination, and alternatives to lower the cost of homeownership should be considered.

PUBLIC POLICY ENCOURAGES HOMEOWNERSHIP

Public policies regarding homeownership are an important element of public policy for all income levels. Owner-occupied housing is the most important household asset for most Americans (Wolff, 2001). Further, approximately two-thirds of the net worth of the bottom 80% of households is held in home equity (Wolff, 2001). Homeownership is viewed as a positive public policy for many reasons, including the stabilizing effect it has on communities, and is therefore rewarded in the federal tax code through the mortgage interest tax deduction. In recent times, policy efforts to increase homeownership have intensified, and many entities have participated in the efforts to expand homeownership rates.

As homeownership rates are high for affluent households, efforts to increase the homeownership rate for the country have increasing focus on low-income households, and have included efforts both by the federal government and the lending industry (Carliner, 1998; Mallach, 2001; McCarthy & Quercia, 2000). Pressure to increase homeownership for low income households has emerged from many sources, including the federal governments mandates on government-sponsored enterprises Fannie Mae and Freddie Mac, stricter enforcement of the Community Reinvestment Act (CRA) to pressure financial institutions to lend in low-income areas and the Clinton administration's goal of increasing homeownership by 2.5% nationwide and the continuation of the goal by the Bush administration (Schwartz, 1998). However, the affordability of credit is a critical issue in the affordability of a home for low and moderate-income clients, particularly for minorities (Andereasen, 1977).

The literature favoring low-income homeownership has included the positive effects of homeownership (Page-Adams & Vosler, 1997), to include the increase of neighborhood stability due to the reduced mobility rate for homeowners compared with renters (Pickvance, 1973; Rohe & Stewart, 1996; Temkin & Rohe, 1998), the effects of homeownership on community development (Galster, 1983; 1987; Mayer, 1981) and the decreased dropout rate and teenage birth rate for children of low-income homeowners (Green & White, 1997). Further, the poor can take advantage of the appreciation of the value of homes to assist future generations by passing homes to children or using homes to help pay for

college or down payment costs on homes. Overall, homeowners tend to have more wealth than renters (Oliver & Shapiro, 1995).

Caution has been raised about the wisdom of encouraging low-income homeownership. First, past policies to encourage homeownership resulted in benefits almost exclusively enjoyed by White families, while families of color have experienced more pervasive poverty, housing discrimination and residential segregation. Poor Whites are much more likely to own their homes than poor people of color (Hughes, 1991). Since income is not the sole reason for non-homeownership, people of color are less likely to build wealth through homeownership than Whites (Denton, 2001). As neighborhoods consisting of predominantly owner-occupied homes are believed to provide more advantages than neighborhoods of predominantly rented homes (Galster & Mikelsons, 1995; Temkin & Rohe, 1998), the value of homeownership for the poor is tied to the quality of the neighborhoods. Therefore, neighborhood condition, rather than just value of the individual home, plays a large part in the value of homeownership (Archer, Gatzlaff & Ling, 1996; Denton, 2001; Lacour-Little & Green, 1998). Low-income families struggle with the costs of maintaining a home, and deterioration of a home leads to a decreased value for the asset (Gyourko & Linneman, 1993). Low-income households are also less likely to enjoy the same tax benefits as higher-income households because of the lack of benefit of itemizing deductions on tax returns (Denton, 2001). The research on the effects of low-income homeownership has been small, local and inconsistent or finds positive effects that are small in scope. While there are many positive aspects, homeownership is likely not to be as positive a strategy of asset building as in the past, especially for families of color (Denton, 2001). Helping low-income families build assets through homeownership may also mean a focus on moving to a better neighborhood with more amenities (Jargowsky, 1997).

In sum, homeownership as a wealth-building strategy for low-income people must be evaluated relative to other means of building assets. Most importantly, low-income people must have access to affordable credit, a means to build assets, adequate housing and safe neighborhoods that offer amenities for a reasonable quality of life (Denton, 2001). Professionals striving to assist low-income households to build assets need to consider the merits of low-income homeownership for each individual household. With these points in mind, homeownership remains a goal for many and work must continue to ensure the best possible scenario for affordable homeownership.

HEC AND COUNSELING

While HEC preceded the creation of the U.S. Department of Housing and Urban Development (HUD) in other efforts to assist low-income households to purchase homes, the large default rates of the first large low-income homeownership initiative, Sec. 235, prompted the institutionalization of HEC within HUD programs. The HEC industry began in earnest during the late 1960s during the Johnson Administration with the 1968 Housing and Urban Development Act (McCarthy & Quercia, 2000). This act allowed HUD to authorize public and private organizations to provide counseling to mortgagors in several programs. HUD began to certify HEC programs in 1971, and began directly funding in 1974. Under HUD, the system expanded several times through the 1970s and 1980s, to include providing funds to support counseling agencies. Most of the community reinvestment and affordable housing programs begun in the 1990s included an HEC component. Several federal initiatives, including the 1989 amendments of the Community Reinvestment Act (CRA) and the 1992 Federal Housing Enterprise Financial Safety and Soundness Act, have led to significant growth in the industry (Mallach, 2001). While the majority of the industry components comprise non-profit organizations, providers include lenders, realtors and mortgage companies. Only a limited number of for-profit entities are involved in delinquency and default counseling. HUD certifies HEC providers, which allows them to receive training and technical assistance and apply for HUD grants (McCarthy & Quercia, 2000).

HEC SERVICES

HEC services can be categorized as pre-purchase and post-purchase. Although services vary widely due to the lack of standardization of the industry, most HEC services provided to clients typically include (McCarthy & Quercia, 2000) outreach and marketing to potential homeowners, assessment of ability to purchase a home, help to establish or repair credit history, monitoring of household income and expenses, advice and assistance in locating employment opportunities to increase inadequate incomes; review of all aspects of purchase and financing of a home, and linkage to lenders, real estate agents and social service agencies.

Some providers also provide services such as down payment assistance, screening for government subsidies, favorable mortgage terms through affiliated lenders and post-purchase counseling. Some providers

even engage in affordable housing development and production, rehabilitation and sale of existing housing, underwriting, development and/or management of low-income rental property and/or small business development (McCarthy & Quercia, 2000). Government agencies typically partner with local non-profit organizations to provide HEC, although state and local housing agencies have provided HEC programs in some states without extensive non-profit agencies. Receiving HEC from a certified provider is an almost universal eligibility criterion for state and local support for homeownership (McCarthy & Quercia, 2000).

Pre-purchase counseling includes general education and more intensive one-on-one counseling to improve creditworthiness, setting and achieving income and savings goals toward down payment and closing costs and locating and qualifying for assistance from lenders and programs. When provided prior to home purchase, HEC can decrease the likelihood of loan default or delinquency (i.e., the owner has missed one or more mortgage payments because the homeowner will be more stable) (McCarthy & Quercia, 2000).

Two major types of post-purchase HEC are default-prevention counseling and post-purchase education programs that cover such topics as home maintenance skills, reverse mortgages and budgeting. Foreclosure prevention typically involves financial planning and assistance in developing a debt reduction plan acceptable to the lender and borrower. Counselors play a central role in mediating between lenders and borrowers. Post-purchase HEC services are typically crisis driven and revolve around reducing loan delinquency or default (McCarthy & Quercia, 2000; Mallach, 2001). Beyond providing pre- and post-purchase services to clients, HEC agencies serve industry-wide functions. Agencies provide linkage among homebuyers, other local agencies, state agencies, federal agencies and the private sector. Further, they serve to streamline local housing policies and programs by identifying administrative inefficiencies and regulatory and finance barriers. HEC providers also serve to mitigate risk by providing post-purchase services to homeowners.

The main barriers to homeownership are credit problems, lack of savings for down payment and closing costs and affordability problems. The most common strategies employed to address the barriers include education, counseling and assistance for budget planning and fiscal discipline, demystification of the home purchase process and assistance with credit building and repair. Alternatively, half provide financial assistance to address problems of insufficient savings to meet down payment and closing costs or to meet monthly payments (i.e., forgivable or deferred payment second mortgage) (McCarthy & Quercia, 2000).

EVALUATION OF HEC

Despite the large financial investment in HEC by government and quasi-governmental agencies and the federal government, little is known about the effectiveness of these services relative to the effect on credit scores, number of new homeowners and mitigation of default risk through the use of HEC services (McCarthy & Quercia, 2000). Despite a history that spans more than 30 years, only 13 empirical studies have been conducted on some aspect of HEC regarding effectiveness. Most of these studies focused on loan performance (Hartarska & Gonzalez-Vega, 2005; Hornburg, 2004). As many as 10 of the 13 studies were conducted more than 20 years ago. Of particular note is a recent study from Hiram and Zorn (2001) that found positive effects of pre-purchase HEC in reducing mortgage delinquencies. These few studies have mixed conclusions and have been plagued with problems that lead to an inability to generalize the findings. Problems have included the vast differences that exist between HEC programs, differences in participant and market characteristics, small samples, limited matching of the experimental and control groups, lack of control groups and short-term data collection. Several of the studies present findings that are contradictory regarding the effects of pre-purchase and delinquency/default counseling (Mallach, 2001). No studies have focused exclusively on the effectiveness of credit counseling within HEC services on credit scores.

THE CREDIT INDUSTRY AND CREDIT SCORES

Credit report education and improving credit scores are often a central focus of HEC services. Credit reports are records of credit activities, such as loans, credit card accounts and payments. Credit bureaus collect information on consumers and charge a fee for providing information to eligible requestors, such as businesses from whom a consumer seeks credit, employers, insurers, government agencies and those with a legitimate business interest. Information contained in the report includes identifying information, credit information (e.g., type of accounts, credit limits and payment pattern over last two years), public record information (e.g., bankruptcies and tax liens) and inquiries (i.e., names of those who have obtained recent copies of your credit report). Information for the report is collected from banks, finance companies, merchants and credit card providers. Adverse consumer information is deleted from the report after seven years and bankruptcies deleted

within ten years. Late and missed payments appear on credit reports and decrease the opportunity for consumers to be approved for credit, insurance or employment (Federal Reserve, n.d., *What Your Credit Rating Says About You*; Federal Reserve, n.d., *Your Credit Rating*; Privacy Rights Clearinghouse, 2004).

The credit score is used by lenders as a way to determine the risk associated with lending money. Credit scores are a numerical score that rates residential and financial stability, and, ultimately, ability to repay a loan over an extended period of time. Credit scores are determined by a combination of factors including: length of time at residence, length of time in a job, job field or profession; debt-to-monthly income ratio; number of late payments; amount of credit outstanding; amount of credit used on a regular basis; and length of time of credit.

The scale for credit scores range from zero to 900. Clients who have never accessed credit are assigned a zero credit score. A general agreement in the mortgage lending industry is that the dividing line between “good” and “not good” credit in FICO scores is a rating of 620. Clients with scores below this number are considered to be high risk for default on a loan and would likely be denied a prime (i.e., lower cost) loan. A score between 620 and 650 is considered “in-between” good and bad credit and clients with this score will likely be asked to provide additional documentation before approval. Scores over 650 are considered excellent and clients with this score will likely be eligible for the best rate on their loan. Problems exist with relying on credit scores as a primary determining factor in determining eligibility, because scores are often inaccurate or inaccurately reflect a buyer’s ability to repay a loan (Mortgage Information Service, n.d.; Privacy Rights Clearinghouse, 2004).

Public policy has been a major force in shaping the credit industry. Major federal laws that regulate credit include the Fair Credit Reporting Act that, among other things, requires consumer reporting agencies to maintain accurate information, the Equal Credit Opportunity Act that requires creditors to apply credit standards in a fair manner so all have an equal opportunity to obtain credit, the Fair Credit Billing Act that requires prompt correction of errors and protects credit ratings and the Fair Debt Collection Practices Act that prohibits unfair, deceptive or abusive practices by debt collectors (Federal Reserve Bank of Philadelphia, n.d., *Your Credit Rights*). While knowledge about credit reports and scores is generally low among U.S. citizens, those of low and moderate incomes are the least knowledgeable about credit reports and scores. One in four credit reports contains serious errors that adversely affect the consumer’s ability to access credit, a loan, an apartment, home loan or employment.

***DIFFICULTIES WITH POLICY
EVALUATION EFFECTIVENESS OF HEC
AND CREDIT COUNSELING***

The most effective type of program evaluation of HEC would be a broad, long-term national study that evaluates the effectiveness of HEC relative to both pre-purchase and delinquency/default counseling. However, there are several problematic issues in designing the evaluation for both the pre-purchase and delinquency/default aspects to HEC. To track the long-term effects of HEC, information is needed from the lending industry about mortgage payment history and delinquency. The lending industry, however, moves loans from institution to institution on a regular basis without a national cohesive tracking system, fails to collect information specific to counseling and little demographic information is available from lenders. Data from organizations that provide HEC are also problematic, particularly in the areas (1) where lack of a standardized industry leads to large variations in program characteristics; (2) of small organization size of many HEC providers; (3) where lack of access to buyers or home seekers who have utilized HEC services exists through the organizations to create a control group; and (4) where ability to track former counselees after they have purchased a home is non-existent (Mallach, 2001). Further problems include the following:

1. The lack of standardized components of HEC (e.g., pre-purchase counseling can be defined as a brief telephone conversation to a combination of group and individual sessions over a period of months).
2. Previous research has indicated that different elements of HEC have different effects on the outcome, although the way in which each element, either separately or in conjunction with other elements affects home buying and home owning behavior.
3. The difficulty and ethical issues involved in creating a matched control group (i.e., factors such as community attachment, level of education about homeownership prior to counseling, attitudinal variables, and others make it difficult to locate matching subjects and denying HEC services to potential homeowners is fraught with ethical issues).
4. The necessity of and difficulty with carrying out a long-term study so as to assess the long-term effects of HEC and to disentangle the effects of HEC from economic downturns, family economic problems and other factors may lead to delinquency and/or default.

Finally, HEC stakeholders (i.e., lenders, HEC intermediaries and local HEC providers) have demonstrated little interest in research (Mallach, 2001).

Empirical research on credit counseling within services to financially troubled consumers through the credit counseling industry has also been scarce. Difficulties of such research include incentives built into the credit counseling system to encourage clients into debt repayment plans, standardization of content of services and tracking subjects over time. In a groundbreaking empirical study of credit counseling from credit counseling agencies, Elliehausen, Lundquist, and Staten (2003), report that one-on-one credit counseling has a positive impact on borrower financial behavior and credit score over an extended period of time. Specifically, financial counseling has the greatest positive effect on those clients with the lowest credit score.

Given the dearth of research on HEC credit counseling and the potential difficulties of a large-scale study, a small-scale study of pre-purchase credit counseling is reported here. Although little is known about the effectiveness of pre-purchase credit counseling, the expansion of the industry indicates that policy decision makers feel this program element is effective in raising credit scores and assisting people to purchase and build equity in homes by enabling the use of lower cost credit. This study examines credit scores at two different time periods and gathered data about a variety of factors that may affect credit scores. The hypotheses of this study is that pre-purchase credit counseling within HEC services leads to higher credit scores (i.e., second score) one year post-credit counseling and multiple service contacts within HEC services leads to increasing credit scores.

METHOD

An HEC agency located in a Midwestern metropolitan urban area was utilized as a data source. Subjects were recruited through their loan-counseling program. The agency provides services for any family seeking services; however, the majority of clients are low and moderate-income families. New clients entering the system were sequentially assigned a number in the order in which they entered the service delivery system. Prior to a loan counseling session, randomly assigned clients signed a consent form allowing the data from their agency file to be utilized, including the information on the baseline credit report and their credit report and agency file one year after the loan counseling session.

The data source agency provides credit counseling through individual one-on-one sessions that last approximately 45 minutes. The sample comprised 273 clients. Potential subjects were those who entered the service delivery system between May 2002 and May 2003. A total of 495 agency clients were asked to participate, for a response rate of 55%. Of the 273 clients who consented for research, complete data were obtained on 203 clients. No control or comparison group was available or utilized for several reasons: (1) to include withholding HEC services from a group could violate generally accepted human subjects standards for the University; therefore, the researcher was advised by Human Subjects committee members that approval of a study with a control group denied services was unlikely; and (2) locating a comparison group was difficult because of the lack of standardization of HEC services locally and nationally.

MODEL AND MEASURES

Multiple regression analysis was used to detect significant variables related to the second credit score, thereby detecting borrowers' subsequent borrowing and payment behavior post-counseling. The regression model provides a statistical estimate of the effect of counseling on credit scores holding constant other observable factors that may influence the performance of counseled borrowers over a one-year period of time.

The baseline credit score and credit information were obtained from the credit report obtained for a fee. This cost was borne by the project as an incentive for participation as the clients entered the service delivery system. The dependent variable was the second credit score, with ten variables chosen because of the presumed influence on the dependent variable (second credit score). The independent variables utilized were age, race/ethnicity, head of household, education level (as indicated by the dummy variables measuring high school and college degrees), amount of monthly debt, amount of monthly household income, the step of services completed (as measured by dummy variables), number of children, first credit score and level of median income for the St. Louis metropolitan area as defined by the U.S. Department of Housing and Urban Development (HUD). These independent variables are predicted to influence the credit scores of subjects' post one-year counseling.

Utilizing the findings from previous credit counseling research, the authors assume that those with the least financial knowledge and experience

and the most financial difficulty will benefit more from credit counseling than those with more education, financial means and knowledge (Elliehausen, Lundquist, & Staten, 2003). Therefore, as a variable, age is used as an indicator of financial knowledge and means. As age increases, financial knowledge is assumed to increase and subjects will have more difficulty making large gains in their credit score (Elliehausen, Lundquist, & Staten, 2003). Conversely, younger people will be learning new financial information and may find it easier to improve their score. As noted earlier, minorities have historically had fewer assets and less wealth than non-minorities (Andreasen, 1977; Denton, 2001; Hughes, 1991) and are assumed, in the aggregate, to have less financial knowledge than non-minorities. Therefore, minorities are predicted to experience a higher gain in credit score than non-minorities as they experience an increased benefit from the information and support provided through counseling as compared with non-minorities. With regard to several independent variables, those who are low income are assumed to have lower credit scores than those with more income and are predicated to glean more benefit from credit counseling. Low-income families have financial problems that lead to lower credit scores, such as bankruptcies, legal claims or judgments, high non-real estate debt and excessive delinquencies (Pennington-Cross, Yezer, & Nichols, 2000). Female-headed households often have only one wage earner and typically lower income than two adult households (Shipler, 2004), and should gain more from financial education and will have greater gains on their second credit score. Those with less education often have weaker financial education than those with higher education (Consumer Affairs, 2005). Those with less education will have larger changes in their credit score. The amount of monthly debt impacts credit score, as the score is partially based on the amount of outstanding debt of the subject (Federal Reserve, n.d. *What Your Credit Rating Says About You*; Federal Reserve, n.d., *Your Credit Rating*; Privacy Rights Clearinghouse, 2004). Those with more debt are predicted to make larger gains in their score. As the number of children in the household increases, the gain in the second score is expected to decrease because of a decreased ability to eliminate debt. Families with additional children have heavier financial responsibilities than those with fewer children and greater debt and will therefore experience greater difficulty increasing their score than families with few or no children.

The HEC service provider categorizes the clients into five categories based on the client's progression through the service delivery system. Subjects are grouped according to the "step" reached by the end of the one-year study. The mortgage loan counseling services are provided

through a four-step process. For purposes of this project, each step is considered a service contact. The first step involves an initial meeting with client and a loan counselor to review the credit report, income and debt. The loan counselor gathers relevant data from the client and determines if the client is ready to make a loan application or must complete certain tasks (i.e., clean up credit or pay down debt) prior to meeting with a loan officer from a lending institution. The second step involves making a loan application. Clients with credit problems are often required to complete letters of explanation for past credit issues. If approved, the client may search for a suitable home. If the lender denies the application, the client is counseled regarding efforts they can make to improve their outcomes of an application in the future and/or referred to a sub-prime lender. The third step occurs when a client receives loan approval and other services can be provided, including referring clients to real estate agents or facilitating the purchase of a For-Sale-by-Owner property, assisting the client and agent to write an offer to purchase property, assisting in the property inspection process, and/or assisting to negotiate necessary repairs to the property. Once any property condition concerns have been addressed and all documents have been gathered, the loan is ready to be closed. Staff then prepares the necessary documents for clients to take advantage of any homebuyer assistance funds from the local government. Ultimately the fourth step is reached when clients have purchased property. The service provider maintains a jointly held emergency reserve account with nearly all clients who have closed loans to be available for mortgage payments to be made or repairs that require immediate attention to be completed. Finally, the service provider completes follow-up work with delinquent clients to prevent foreclosure.

As households work closely with the HEC provider to buy a home, the predication is that credit score will increase as client's progress through the service steps because of the increased contact with the staff and consistent improvement in financial matters over a longer period of time (Elliehausen, Lundquist, & Staten, 2003). Monthly household income impacts change in credit score as income affects the level at which households can pay off debt that directly affects their credit score (Federal Reserve, n.d. *What Your Credit Reports Says About You*; Federal Reserve, n.d., *Your Credit Rating*). Subjects with initial lower ability are likely to obtain greater benefits from counseling than borrowers with an initial higher ability (Elliehausen, Lundquist, & Staten, 2003). The clients whose median income falls below 80% of area median income defined by the U.S. Department of Housing and Urban

Development are predicted to have a higher second score than those with incomes above this level because of the assumption that they have less financial knowledge and experience (Elliehausen, Lundquist, & Staten, 2003).

FINDINGS

Data were analyzed using the Statistical Package for Social Sciences (SPSS 12.0). Descriptive statistics describe the sample and to provide an understanding of the underlying patterns and structure of the data. ANOVA or t-tests were used to assess the nature of the relationship between variables.

Most of the sample had a high school diploma as their highest level of education (79.9%), were female headed-households (69.5%), were 34.89 years on average, had a mean monthly income of \$3,003.65, a mean monthly debt of \$440.30 (excluding rent and utilities), a mean first credit score of 579.76, a mean second credit score of 583.67 and the majority had received credit counseling only after one year (67.5%) and had not progressed any further toward purchasing a home. Because race is of particular interest, summary statistics were calculated by race. Notable differences between the two groups were the following:

1. A higher percentage of Whites had a college degree than African Americans (20.5% compared with 13.6%).
2. Whites had fewer female headed-households (63.6% compared with 77.8%).
3. The average monthly income was virtually identical (\$2,994.17 for African Americans and \$3,137.79 for Whites).
4. African Americans had a much higher mean monthly debt (\$474.22 compared with \$406.22).
5. Whites had a significantly higher first credit score than African Americans (\$610.84 compared with \$555.95) but less gain over a year's time (1 point average increase for Whites as compared with 9.41 for African Americans).
6. In the overall sample, credit counseling benefited most those who closed on a home in terms of credit score gains (overall increase of 8.63 points). In the sample separated by race, credit counseling only benefited African Americans who received only credit counseling and those who closed on a home; only Whites who were "at bank" experienced a positive benefit.

7. Although Whites and African Americans had the same percentage who reached the credit counseling stage, a larger percentage of Whites actually closed on a home as compared with African Americans (27.3% compared with 23.1%).

According to paired samples t-tests, the difference between the first and second credit scores was not statistically significant ($p = .313$). Additionally, the difference in first and credit scores was approaching statistical significance for African Americans ($p = .06$) and not significant for Whites ($p = .89$). (See Appendix A).

The continuous independent variables were graphed against the dependent variable to determine the presence of a linear relationship. The relationship between most independent variables and the dependent variable was fairly negatively linear, with few exceptions. With each independent variable, there were few outlying data points. Because the relationships were primarily linear and did not improve through transformation attempts, the variables were left in their original form. One variable, first credit score, was positively linear. The other variables in the research (i.e., female-headed households, education, phase of service delivery, race and median income) were all non-continuous variables and were therefore not graphed against the dependent variable to assess for a linear relationship.

The dependent variable, second credit score, was regressed on all of the independent variables. The model was specified to ascertain the highest possible adjusted r squared, a statistically significant f score and independent variables that were statistically significant. The model with the highest adjusted r squared and statistically significant f score and independent variables is shown in Table 1.

This model includes borrower's age, dummy variables that indicate phase of service delivery and the first credit score. The adjusted r squared is .483, which means that 48.3% of the variation in the second score can be explained by variation in age, phase of service delivery and first credit score. The model is statistically significant at the .000 level and two variables, borrower's age ($t = -1.916$, $p = .057$) and first credit score ($t = 11.702$, $p = .000$), are statistically significant. The phases of service delivery (i.e., active, at bank and under contract) were left in the model because of their theoretical importance, despite not being statistically significant.

Diagnostics were run on this model. To test for any omitted variables, the predicted values were saved, raised to the K-1 power (4) and entered into the model to assess whether the model is missing an important vari-

TABLE 1

	Adjusted R Square	Standard Error of the Estimate	F	Significance
Model Summary	.483	50.980	32.205	.000

	Unstandardized Coefficient B	Unstandardized Coefficient Std. Error	T Score	Significance
Constant	235.576	38.605	6.102	.000
Borrower Age	-.798	.417	-1.916	.057
Initial Credit Score	.664	.057	11.702	.000
Active Status	-13.191	9.497	-1.389	.167
At Bank Status	-4.771	19.895	-.240	.811
Under Contract Status	17.851	51.933	.344	.731

able. The predicted value was statistically significant ($p = .000$). This indicates that the model is missing an important variable. The predicted values were graphed against the residuals. This graph showed a fanning out of the data, rather than randomness, which also indicates a problem with an omitted variable. All variables available in this dataset were tested; no new variables were available to the researcher. Therefore, additional theoretical work needs to be done to introduce at least one new variable into the model.

While problems with spatial autocorrelation are possible because, for example, the subjects in this study come from the same geographic area and the sample may not be diverse enough to avoid the problem, we were unable to assess this potential problem. A correlation matrix was run between the continuous independent variables (i.e., age and first credit score) to assess for problems with multicollinearity. The relationship between these variables is lower than .8 and statistically insignificant. Additionally, a VIF test was run on the model to test for multicollinearity. The VIF values were all under 10; therefore, multicollinearity is not a problem for the model.

Finally, to test for homoscedasticity, several graphs were completed to test for an equal variance of the error term. The mean of the error term was zero. The error term was graphed against a normal curve, against

the two continuous variables (i.e., age and first credit score) and against the predicted values. The error term appeared to fairly closely follow a random distribution for these continuous variables; therefore, the model does not appear to have the problem of heteroscedasticity.

DISCUSSION

The model has some inherent strengths; a statistically significant first credit score, some statistically significant independent variables and an adjusted r -squared of .483 that provides information about the variation of the second credit scores and few problems related to multicollinearity, autocorrelation and heteroscedasticity. The difficulty with the model lies in the strong possibility of an omitted variable and the inability to introduce new possibilities with the data at hand. Theory needs to be developed and data collected which better addresses the influencing factor on the second credit score which is currently not in the model.

Utilizing the results of this research, HEC providers may wish to provide different types of services to younger families and those with higher initial credit scores, as contrasted with older families or those with lower credit scores. These data show that older families and those with lower initial credit scores may have a lessened ability of achieving a 620 or higher credit score within one year. For example, with these populations, rather than focusing on homeownership as the ultimate goal, a more short-term goal may need to be identified as the goal of efforts to raise the credit scores. Changing services so that an intermediate goal other than homeownership is agreed to with the families may prove more beneficial to those clients seeking HEC services that are older and have a low credit score. Additionally, the near statistical significance of the difference between the first and second credit scores for African-Americans is notable and consistent with previous research that asserted that those with the lowest credit scores benefited the most from credit counseling. However, the strong possibility of the absence of one or more important variables from the model indicates that more theoretical work must be done to make further conclusions.

The overall small difference in the first and second credit scores should be a cause for policy concern. If approximately 70% of the clients in this study and 60-70% of clients nationally who avail themselves of HEC services never progress beyond credit counseling to home purchase, policy attention should be given to the effectiveness of the credit counseling provided within HEC. While the overall sample improved

their credit score and those that completed credit counseling only experienced the greatest gain in their score, the overall improvement was slight relative to the gain needed to have a score over 620 to access affordable credit. Some clients actually experienced a negative movement of their credit score. A negative movement in credit score is likely due to closing credit accounts (i.e., closing accounts decreases the amount of available credit and decreases the credit score in the short term). However, HEC providers must seek to improve their services to more effectively counsel people about efforts to improve, rather than worsen, their credit score.

This study has several limitations that restrict the ability to generalize findings. The study had a small sample size ($n = 203$), data were collected in one Midwestern city only, did not include a control or comparison group and only tracked the financial history of subjects for the duration of one year. The results of this study should only be generalized with caution.

Given the estimation problems, a comprehensive, national program evaluation of HEC would involve building a model that takes into account program, participant and market differences and incorporates the determinants of homeownership and default decisions.

To strengthen the robustness of the findings, a research design should include a controlled experimental in which the sample size is large (approximately 10,000), and participants are randomly assigned to a control or an experimental group. To assess the effect of counseling, the tenure choice and default behavior of families in both groups are observed over a significant duration of time. If the treatment group has a large difference in credit scores compared with the control group, the effectiveness of HEC could be inferred. Clearly, this type of evaluation would be difficult, costly and time consuming. Although, the studies that have been conducted have been more short term, smaller in scope and less expensive; Although, they have also not led to conclusive results. National policy leadership is needed to fund and disseminate the results from such a study. One possibility for such an evaluation would be for HUD to work with lenders and other providers to design and implement a study. Ethical issues regarding the control group requires serious discussion and resolution.

To conduct a policy evaluation of HEC, a policy evaluation would also necessitate consideration of policy alternatives and evaluations of those alternatives or combination of alternatives relative to specific goals and criteria. For example, the general goals of affordable federal housing programs would need to be specified. Goal possibilities include

increasing the national homeownership rate, stabilizing neighborhoods, increasing the number of families who are homeowners and increasing the rate of homeownership by low-income families. Goal possibilities related to credit counseling could include increasing the mean credit scores of HEC participants, even those who only access this first step. This policy goal would relate to increasing homeownership as well as assist low-income families to access rental housing, employment and insurance resources, among others. Policy goals in this area could also relate to a myriad of other social problem definitions, to include destabilized neighborhoods, homelessness, depressed property values, low achievement in schools, increasing crime rates, political expediency and a need for a catalyst for the home-building industry and host of other possibilities. Raising credit scores has important social as well as familial implications.

CONCLUSION

Due to the impact the numerical value has on life opportunities, even beyond purchasing a house, raising credit scores among low and moderate income families with poor credit has important implications. The model specified in this paper suggests that age and initial credit score are significant variables that impact the second credit score, and HEC providers can take this into consideration when designing services. The model suggests that HEC providers who wish to increase the second credit score of their clients toward a goal of homeownership should target younger families with a higher initial credit score. Secondly, HEC providers may wish to emphasize to clients that even though they may not purchase a home within a year, raising their credit score has wide positive implications for other areas of their life. This first step in the program may deserve more resources and energy because of the broad implications of the counseling. HUD, as the funder of HEC services, may wish to tailor HEC policy goals to include raising credit scores among HEC participants because 60-70% of participants may never purchase a home, yet benefit from the credit counseling portion of the services.

Broader policy implications regarding the low percentage of participants who are not able to purchase a home within one year could be considered. In an effort to expand homeownership in single-family homes, other policy options have not received the same level of attention as HEC. While HEC serves to educate and counsel buyers to be able to compete virtually independently in the private market place with other

potential buyers, other policy options exist which may serve to lower the short and/or long-term cost of the home. For example, little exploration or use of alternative forms of homeownership, such as cooperative housing and lease-purchase agreement, has occurred (Mallach, 2001). Another possibility is to increase community development funds for affordable housing to increase the supply of affordable housing (and thereby decrease the price of the home). The federal government could also supply additional funds to HEC providers specifically for financial assistance to overcome the affordability barrier, as downpayment constraints restrict access to homeownership more often than income (Di & Liu, 2005). Another possibility for decreasing the cost of homes is encouraging land trusts to divorce the cost of a home from the cost of the land on which the home sits, thereby maintaining the affordability of homes on a long-term basis. A government supplement for mortgage payments is an additional policy option (Nagel, 2002). Finally, a policy alternative may also be to spend housing dollars such that quality neighborhoods of low-income homes are created.

At this point, it is difficult to tell whether HEC is the best option toward homeownership goals. A comprehensive program evaluation and a policy evaluation would be beneficial to assess whether the current policy of promoting and maintaining HEC with federal and private dollars is the most worthwhile investment. More work in this area may produce findings that would at least increase knowledge that HEC is a worthwhile investment, and possibly allow for a better investment of dollars toward the goal of increasing homeownership.

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APPENDIX A. Descriptive Statistics

Variable	Most Frequent Category or Mean data: Entire Sample (203)	African American (117 of 203 or 58%)	White (44 of 203, or 22%)
Education High School College Degree	73.9% 19.2%	81.2% 13.6%	59.1% 20.5%
Female head of household	69.5%	77.8%	63.6%
Mean age	34.89	35.5	34.28
Mean monthly income	\$3,003.65	\$2,994.17	\$3,137.79
Mean monthly debt	\$440.30	\$474.22	\$406.22
Mean first credit score	579.76	555.95	610.82
Mean second credit score	583.67	565.36	611.84
Phase of contact after one year and mean change in score	67.5%–Active (change = 3.37) 5.9%–At Bank (change = -5.42) 2.5%–Under Contract (change = -14.6) 24.1%–Closed (change = 8.63)	70.9%–Active (change = 12.36) 4.3%–At Bank (change = -14.4) 1.7%–Under Contract (change = -51) 23.1%–Closed (change = 9.22)	70.5%–Active (change = .32) 2.3%–At Bank (change = 23) 0%–Under Contract 27.3%–Closed (change = 1)