Economic Impact of Homebuyer Training Programs: A Case Study

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ECONOMIC IMPACT OF HUD CERTIFIED
PRE-PURCHASE HOUSING COUNSELING
PROGRAMS

PRESENTED BY BRITTANY ARCENEAUX

Innovate UNO
March 1, 2013
PRESENTATION OVERVIEW

• Overview
• Purpose of the Research
• Research Question
• Definitions
• Homeownership in Literature
• Research method
• Limitations of the study
• Preliminary research findings
• Next steps in Research
• Questions
This study will focus on the relationship between homeownership and HUD certified Pre-Purchase Housing Counseling. The research will also focus on the Arceneaux Housing Counseling Economic Impact model (AHCEI) for assessing a link between these programs and economic development.

This presentation will provide preliminary study results from the AHCEI model concerning several housing industries impacted by homebuyer expenses.

This research aims to provide a model that local HUD certified Housing Counseling organizations can use for economic impact assessments.
PURPOSE OF THE RESEARCH

- Homeownership and Housing Counseling
- Measurement Techniques to analyze economic impacts of HUD Certified Pre-Purchase Housing Counseling
- Examine a specific case study
- HUD Certified Counseling Organization: Neighborhood Development Foundation (New Orleans, LA)
- Evaluation of expenses: Real Estate, Lender, Attorney, Insurance, Appraisal, and Government industries
- Used for other communities to customize their specific research project for Pre-Purchase Housing Counseling by adding other measurements such as inspection fees or other related economic impacts
Research Question

How can HUD certified Housing Counseling Organizations measure the economic impacts of pre-purchase counseling programs?
DEFINITIONS

HUD certified housing counseling definition:

**Counseling 1:** Counseling is described as *counselor-to-client assistance* that addresses unique financial circumstances and housing issues, and focuses on **overcoming specific obstacles to achieving a housing goal** such as repairing credit, addressing a rental dispute, purchasing a home, locating cash for a down payment, raising awareness about critical housing topics such as predatory lending practices, fair lending and fair housing requirements, finding units accessible to persons with disabilities, avoiding foreclosure, or resolving a financial crisis. Except for reverse mortgage counseling, all counseling will involve the creation of an action plan.

**Education 2:** For the purposes of HUD’s Housing Counseling Program, education is defined as *formal classes, with established curriculum and instructional goals, provided in a group or classroom setting*, or other formats approved by HUD, covering topics such as, but not limited to: (1) renter rights; (2) the home buying process; (3) how to maintain a home; (4) budgeting; (5) fair housing; (6) identifying and reporting predatory lending practices; (7) rights for persons with disabilities; (8) and the importance of good credit. Special Note: The educational topic of “Fair Housing” may include the promotion and protection of civil rights as they relate to ensuring equal opportunity housing. Such educational sessions may include topics such as identifying and reporting discriminatory policies, procedures practices, fair lending, Section 504 of the Rehabilitation Act, and predatory lending.
DEFINITIONS

**Economic Development**: transaction fees associated with Neighborhood Development Foundation homebuyer expenses which were calculated using the AHCEI Model.

**Homebuyer Data Set**: Insurance, Government, Real Estate, Attorney, Lender, and Appraisal expenses for 12 Neighborhood Development Foundation Housing Counseling participants who closed on a home in 2012.

**NDF**: Neighborhood Development Foundation.

**Homebuyer**: An individual who completed housing counseling at NDF and purchased a home in Orleans Parish between January 2012 - December 2012.

**One Time Economic Benefit**: expenses homebuyers were only required to pay one time.

**Ongoing Economic Benefit**: expenses homebuyer will be required to pay on an annual basis.
LITERATURE REVIEW

“Research surveyed shows that homeownership gives more control to owners over their physical surroundings and tenure, lowers real monthly payments over time, protects against unanticipated changes in rental costs, and helps build wealth” (Rohe, 1996). 1

“Homeownership creates economic prosperity for families and communities and acts as a dynamic generator of economic growth. Every new home creates 2.1 jobs directly related to construction, and many more jobs through increased demand for household goods and services” (HUD 1995). 2


In 2000 The Research Institute for Housing America discussed several contributions of Housing Counseling which could help private stakeholder recognize the benefits in investing in housing counseling.

1. The amount of money contributed by industry stakeholders is minuscule compared with the amount of money passed through the housing finance system;

2. Housing Counseling serves at least two roles for industry stakeholders – marketing and risk mitigation;

3. Housing Counseling reaches out to underserved populations and makes them ready to own thus expanding the market for stakeholders;

4. Housing Counseling sets the stage for subprime lending and risk-based pricing by compiling information on markets lenders knew very little about.

HOMEOWNERSHIP IN LITERATURE

Brittany Arceneaux, 2013; Data Source: U.S. Bureau of Economic Analysis, 2012
HOMEOWNERSHIP NETWORKS

Lender

Insurance

Attorney

Appraisal

Government

Hombuyer Expenses

Real Estate

Brittany Arceneaux, 2013 Homebuyer Benefit Network
PRELIMINARY STUDY PROCESS

- Data Files were analyzed
- 12 homebuyers were chosen using a random single state sampling procedure
- Individual homebuyer expenses were defined
- Industries of analysis were chosen based on un-restricted available data
- A data set based upon paper documents was created
- The paper data set was summarized in excel
- A data dictionary was created
- A regression formula was used
- The AHCEI model was created
RESEARCH METHOD (ANALYSIS METHODS)

AHCEI Economic Impact = Insurance + Government + Real Estate + Lender Fees + Attorney Fees + Appraisal Fees + i

i = unknown

**Insurance Fees:** annual charges for homeowner, hazard, and flood

**Government Fees:** recording charges, deed, mortgage, release transfer taxes city tax/stamps: deed, mortgage, release state tax/stamps: deed, mortgage, release

**Real Estate Fees:** agent commission fees

**Lender Fees:** charge for interests rate chosen, adjusted origination charges, credit report, and flood certification

**Attorney Fees:** notary fees, title search, title company fees and title insurance company fees
LIMITATIONS OF THE STUDY

• Limited subset of the homebuyer data set
• Home purchase within Orleans Parish between January 2012- December 2012
• Selected industry’s
PRELIMINARY RESEARCH FINDINGS

One Time Benefits

- **Appraisal fees:** $3,140.00 (2%)
- **Lender Fees:** $31,185.24 (18%)
- **Government Fees:** $13,548.00 (8%)
- **Attorney Fees:** $50,071.45 (30%)
- **Real Estate Commission:** $71,355.00 (42%)

**Total:** $169,299

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**Lender Fees:** charge for interests rate chosen, adjusted origination charges, credit report, and flood certification,

**Government Fees:** Recording Charges Deed, Mortgage, Release Transfer Taxes City Tax/Stamps: Deed, Mortgage, Release State Tax/Stamps: Deed, Mortgage, Release

**Attorney Fees:** Notary Fees, Title Insurance Fees, and Title Search

Brittany Arceneaux, 2012 One time benefits Data Source: Neighborhood Development Foundation, 2012
**PRELIMINARY RESEARCH FINDINGS**

**Insurance:** annual charges for Homeowner, Hazard, and Flood.

**Property Tax:** annual property tax paid to the City of New Orleans.

**Mortgage:** does not include escrow

**Mortgage Insurance Premium Fees:** Annual fee paid to protect Lender

Brittany Arceneaux, 2012 One time benefits

Data Source: Neighborhood Development Foundation, 2012

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**Ongoing Benefits**

- Annual Insurance Fees: $51,104.71
- Annual Property Tax Fees: $2,089.49
- Annual Mortgage Fees: $9,451.93
- Annual Mortgage Insurance Premium Fees: $11,805.79

**Total:** $331,271
# NEXT STEPS IN RESEARCH AND TIMELINE

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<th>Spring 2013 Timeline</th>
<th>Mar-13</th>
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<tr>
<td>Continue to develop data set</td>
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<td>Expand research to a global context</td>
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<td>Run more data analysis</td>
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<td>Conduct Further Testing of the AHCEI Model</td>
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<td>Write additional findings</td>
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<td>Finalize Report</td>
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<td>Send report for review</td>
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<td>Submit report and Model to Neighborhood Development Foundation</td>
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Thank You!

Questions?