Armed, Unarmed or Harmed by Knowledge? A Comment on the FHA's Housing Counseling Pilot Program

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Via http://www.regulations.gov

Re: Homeowners Armed with Knowledge (HAWK) for New Homebuyers (Docket No. FR-5786-N-01)

To Whom It May Concern:

The FHA has requested input on its Homeowners Armed with Knowledge (HAWK) for New Homebuyers program. Housing counseling is not a proven solution to the problem it is meant to solve, excessive defaults by FHA borrowers. HAWK is a traditional housing counseling program but the scholarly literature casts into doubt the efficacy of such programs. It would be better to take time to research which counseling strategies, if any, are proven to be effective. This is true for the FHA but also for other government agencies, such as the Consumer Financial Protection Bureau, that have also devoted significant resources to unproven financial counseling programs.

The Problem: Poor Mortgage Performance

The Federal Housing Administration recently issued its Blueprint for Access: What FHA is Doing to Expand Access to Mortgage Credit for Underserved Borrowers (May 9, 2014). The blueprint identifies a serious problem:

The economic crisis significantly constrained credit making it tough for anyone with less than perfect credit to obtain a mortgage.

According to the Urban Institute, the average credit score for loans sold to the GSEs is 752. Currently, there are 13 million people with credit scores ranging from 580 to 680. Shutting these consumers out of the market hurts American families and undermines our efforts to build more stable communities, create pathways to the middle class, and increase homeownership opportunities for minority and low-wealth borrowers.
A healthy mortgage market serves all qualified borrowers. FHA is committed to finding ways to responsibly increase access for underserved borrowers. *(Blueprint, 3)*

Unfortunately, the FHA’s solution to the problem it identifies is not proven to work. The *Access Blueprint* states that “Responsible access can be enhanced by ensuring borrowers are well-educated about the home-buying and mortgage finance process.” *(Blueprint, 3)*

Under the heading, Homeowners Armed with Knowledge (HAWK), the Blueprint states that “Housing Counseling works. Research shows a strong correlation between housing counseling and mortgage performance.” *(Blueprint, 4)*

As the FHA should know, correlation is not the same thing as causation. It could be that those who have the traits that make them likely to sign up for housing counseling also make them more likely to make their mortgage payments. In fact, the scholarly literature on making people financially capable is not so comforting when it comes to decreasing credit defaults.

**The Proposed Solution: Housing Counseling**

The FHA’s *Notice* about HAWK *(Docket No. FR-5786-N-01)* describes it as a pilot that will provide FHA insurance pricing incentives to first-time homebuyers who participate in housing counseling and education that covers how to evaluate housing affordability and mortgage alternatives, to better manage their finances, and to understand the rights and responsibilities of homeownership. The goals of the HAWK for New Homebuyers pilot (HAWK Pilot) are to test and evaluate program designs that meet these objectives:

- To improve the loan performance of participants and reduce claims paid by FHA’s Mutual Mortgage Insurance Fund (MMIF).

- To expand the number of families who improve their budgeting skills and housing decisions through access to HUD-approved housing counseling agency services; and

- To increase access to sustainable home mortgages for homebuyers underserved by the current market. *(79 F.R. 27896, 27896  (May 14, 2014))*

The Notice presents additional research (in footnotes 5-8) that supports the FHA’s goals, but this review of the literature about the efficacy of housing counseling is incomplete. The Notice says, for instance, “some studies show” and “Several major studies have recently noted a correlation . . . .” *(79 F.R. 27896, 27897)* But the Notice does not seem to contextualize these studies at all. In fact, a meta-analysis of financial education initiatives is decidedly less optimistic.
### The Literature Review: Financial Education Unproven


This paper presents a systematic and comprehensive meta-analysis of the literature on financial education interventions. The analysis focuses on financial education studies designed to strengthen the financial knowledge and behaviors of consumers. The analysis identifies 188 papers and articles that present impact results of interventions designed to increase consumers’ financial knowledge (financial literacy) or skills, attitudes, and behaviors (financial capability). These papers are diverse across a number of dimensions, including objectives of the program intervention, expected outcomes, intensity and duration of the intervention, delivery channel used, and type of population targeted. However, there are a few key outcome indicators where a subset of papers are comparable, including those that address savings behavior, defaults on loans, and financial skills, such as record keeping. The results from the meta analysis indicate that financial literacy and capability interventions can have a positive impact in some areas (increasing savings and promoting financial skills such a record keeping) but not in others (credit default).

FHA policymakers should review this paper carefully. The FHA’s housing counseling initiatives must be built on solid research if it hopes to improve outcomes for homeowners. A lot of the scholarly work in this area has questioned the efficacy of financial education, but the FHA seems to be moving ahead under the assumption that it works. The FHA should bore down into the literature to determine which types of interventions are effective before allocating funds to new initiatives.

Of particular concern is the last sentence of the World Bank Working Paper’s abstract. It indicates that interventions have failed to improve consumer behavior when it comes to credit default. That seems to be a big problem for any housing counseling initiative. Further research should focus on alternative interventions that might be effective in reducing credit default by home buyers. And limited funds should not be wasted in the interim on unproven initiatives in this area.

The World Bank’s meta-analysis is not the only scholarly work that warns that the FHA is moving too quickly in this area. Professor Lauren Willis’ *Financial Education: Lessons Not Learned and Lessons Learned* (a chapter in *LIFE-CYCLE INVESTING: FINANCIAL EDUCATION AND CONSUMER PROTECTION* 125 (Zvi Bodie et al., eds. 2012)) is a sobering, even depressing, overview of what we know about the efficacy of financial education.

Willis asks, “Does financial education work as hoped?” (Willis, 125) She answers her own question: “Empirical evidence does not support the theory. Some (but not all)
studies show a positive correlation between financial education and financial knowledge or between financial knowledge and financial outcomes. But no strong empirical evidence validates the theory that financial education leads to household well-being through the pathway of increasing literacy leading to improved behavior.” (Id.)

Some of Willis’ other important conclusions (based on a thorough review of the literature) include

- “the only statistically significant effect of mandatory personal financial training on soldiers was that they adopted worse household budgeting behaviors after the training than before it.” (Willis, 126)
- “Youth who took a personal finance course in high school do not report better financial behavior several years later than youth who did not take the course. Adults who attended public schools where they were required to take personal financial courses were found to have no better financial outcomes than adults who were not required to take such courses.” (Id., citations omitted)
- One “reason financial education is unlikely to produce household financial well-being is that consumers’ knowledge, comprehension, skills, and willpower are far too low in comparison with what our society demands.” (Id. at 128)

Willis’ conclusions should caution against assuming that financial education is a proven method to reduce poor outcomes for consumers.

**Alternative Approach: Fundamental Research on Financial Education**

There is no solid empirical evidence that financial education achieves good results in general. So why study particular initiatives? There are some fundamental questions about financial literacy that need to be studied before resource-intensive pilot projects like HAWK are undertaken. The FHA should engage in a broad survey of financial counseling programs first and then develop a research agenda that reflects the big issues that they implicate. These include

- What useful metrics exist for measuring the impact of housing counseling initiatives?
- Does housing counseling improve concrete outcomes for homeowners?

These are just a couple of big questions that should be answered before the FHA undertakes particular programs.

The FHA should start from the premise that we have little reason to believe that housing counseling works and should build up a body of knowledge from there. If the FHA assumes that it works, as the roll out of HAWK implies, then that assumption might lead the FHA on a wild goose chase as it studies program after initiative after project, looking for a housing counseling approach that works.
The Takeaway: All Federal Agencies Should Evaluate Financial Education Initiatives Carefully

The Consumer Financial Protection Bureau, for one, faces similar challenges to those faced by the FHA. The CFPB released its report, Feedback from the Financial Education Field (May 13, 2013), which summarizes responses to a Request for Information on Effective Financial Education. The CFPB is required by Dodd-Frank to establish an Office of Financial Education “to educate American consumers and help them make better-informed decisions.” (Feedback, 5) The CFPB states that this “statutorily-mandated function serves as an important component of the CFPB’s consumer protection work.” (Id.)

But the feedback that the CFPB received was disturbing. The report finds that “there is little systematic evidence about what approaches are most effective, for whom, and under what conditions.” (Id. at 3) As of now, there “is a limited amount of rigorous evaluation on the effectiveness of financial education strategies and practices. A substantial amount of research in the field does not include control groups or use randomized control trials, and thus only limited compelling conclusions about financial education can be drawn, and often they cannot be reliably extrapolated to broader populations.” (Id. at 11) Very basic things about financial education are still unknown. For instance, the CFPB acknowledges that there is uncertainty as to whether there is “a clear connection between financial knowledge and behavior.” (Id. at 3)

One finds similar insights in the CFPB’s Financial Empowerment Training for Social Service Programs: A Scan of Community-Based Initiatives (Sept. 18, 2013). The report opens with Gail Hillebrand, the Associate Director for Consumer Education and Engagement, noting that

Consumers need four things to be financially empowered. First, consumers need consistent access and the ability to choose among high-quality financial services. Second, consumers need sufficient information about the costs, the benefits, and the risks, of choices in the marketplace. Third, consumers need a set of financial habits and skills that constitute financial capability to help them to make the financial decisions that benefit themselves and their families. Finally, consumers need to know that they can get a better shot at achieving their own life goals if they affirmatively seek information, make choices, and take steps to control their financial lives. (Scan, 1)

But this “scan” of programs in this document makes me fear for a strong connection between what consumers need, as outlined above, and what existing programs are doing. “Finding 9” of the report state that “Most training initiatives targeted at case managers recommended some form of assessment of the effectiveness of the initiatives, but few tracked whether case managers were using this information with clients.” (Scan, 6-7)
This was the only finding that really addressed evaluating the success of financial education/empowerment initiatives. And it indicates that programs don’t really try to measure their implementation, let alone their effectiveness. This report is consistent with the scholarly literature: we do not yet know what works in the arena of financial education.

For now, the federal government should devote its efforts to evaluating “curricula, tools, and programs in order to identify programs and practices that are proven to improve financial outcomes.” (Feedback, 17)

The Conclusion: Slow Down

The FHA, as well as the CFPB, has decided to move forward with housing counseling based on weak evidence. On the bright side, HAWK is just a pilot program and the FHA will evaluate it to see whether it meets its goal of “improving loan performance.” (79 F.R. 27903) The FHA’s (and the CFPB’s) materials do, however, show an unwarranted bias toward counseling that a review of the relevant literature does not seem to bear out.

Obviously, the FHA should be focused on promoting sustainable homeownership for “all qualified borrowers.” (Blueprint, 3) Obviously, the FHA should find ways to “responsibly increase access for underserved borrowers.” (Blueprint, 3) What is not obvious is whether the HAWK program will achieve those goals.

The federal government should hold off on making significant investments in the area of housing counseling until it can identify successful strategies through evidence-based practices. Too much of housing policy is based on sketchy academic research. Such research is readily relied upon to support politically palatable or ideologically driven decisions. But the federal government should avoid taking the easy road as it will undercut the legitimacy and credibility of financial education initiatives in the long run.

(This comment letter is adapted from work that has previously appeared on the author’s blog, REFinblog.com.)

Sincerely,

David Reiss