The Effectiveness of Homeownership Counseling

A Presentation by
Dr. Marvin M. Smith

The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.
Research Need

“Like many domains within financial literacy research, homeownership education and counseling have never been rigorously evaluated through a randomized field experiment.”

— J. Michael Collins and Collin O’Rourke
University of Wisconsin-Madison, 2011
Study Background

- Study Objective
- Experimental Design
- Recruitment of Participants
  - Eligibility
  - Time Period
- Partnerships
  - Clarifi
  - Abt Associates
## Our Participants

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>50%</td>
<td>are under 35 years old</td>
</tr>
<tr>
<td>Gender</td>
<td>2/3</td>
<td>are women</td>
</tr>
<tr>
<td>Race</td>
<td>78%</td>
<td>are African American</td>
</tr>
<tr>
<td>Marital Status</td>
<td>75%</td>
<td>are single</td>
</tr>
<tr>
<td>Education</td>
<td>2/3</td>
<td>have attended some college or more</td>
</tr>
<tr>
<td>Earnings</td>
<td>52%</td>
<td>earn between $12,000 and $35,988 annually</td>
</tr>
</tbody>
</table>
Our Participants: Banking Products

90% of participants have checking accounts
Our Participants: Total Debt

Average Total Debt: $28,353
Study Structure

- Outcome of random assignment
- Tracking of participants
  - Credit scores
  - Credit reports
  - Annual follow-up surveys
- Delivery of services
  - All-day training workshop
  - Monitoring of counseling sessions
What They Learned

2-Hour Session

Control

Treatment

• 2-Hour Session
• 2-Hour Session
• 1-on-1 Counseling
Focus of Analysis

- Financial behavioral outcomes
  - Total debt
  - Delinquencies in payments (including mortgage payments)
  - Credit scores
  - Homeownership rates
Our Homeowners

61 participants in treatment group

52 participants in control group

113 total homeowners
Homeowners: Reduction in Total Debt

<table>
<thead>
<tr>
<th>Control</th>
<th>Treatment*</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4%</td>
<td>-8%</td>
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</table>

Treatment homeowners witnessed an 8% reduction in total debt.

* p < 0.10
**Homeowners:**

**Reduction in Delinquent Payments**

<table>
<thead>
<tr>
<th></th>
<th>Control</th>
<th>Treatment</th>
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<tbody>
<tr>
<td>30 Days*</td>
<td>0</td>
<td>-0.7</td>
</tr>
<tr>
<td>60 Days</td>
<td>0</td>
<td>-0.6</td>
</tr>
<tr>
<td>90 Days</td>
<td>-0.2</td>
<td>-0.9</td>
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<tr>
<td>30 Days***</td>
<td>0</td>
<td>-1.5</td>
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<tr>
<td>60 Days</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>90 Days</td>
<td>-0.6</td>
<td></td>
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</tbody>
</table>

Homeowners receiving **one-on-one counseling** saw a **larger reduction** in late payments.

* * p < 0.10, *** p < 0.01
Homeowners: Increase in Credit Scores

Credit scores increased by 16.1 points for those receiving the treatment.

Control: 8.3

Treatment: 16.1

*** p < 0.01
Key Findings

- Counseling matters even in challenging economic times

- A little counseling helps, but more counseling helps even more
  - Policy implication – added benefit/added cost

- Counseling benefits those who later become homeowners and those who do not
  - May help some consumers realize they are not financially ready to purchase

- Homeowners pay mortgages on time