

The Effects of Homebuyer Pre-Purchase Education and Counseling by NeighborWorks Organizations

Executive Summary

NeighborWorks® America's (NeighborWorks) nationwide network of affiliates offers pre-purchase homebuyer counseling and education throughout the country. Using information on about 75,000 loans originated between October 2007 and September 2009, Neil Mayer and Associates together with Experian analyzed the impact of pre-purchase counseling and education, provided by NeighborWorks' network, on the performance of counseled borrowers' mortgages. It compares mortgage performance for counseled buyers over two years after the mortgages are originated, compared to mortgage performance of borrowers who receive no such services.ⁱ The study's findings show that pre-purchase counseling and education works: clients receiving pre-purchase counseling and education from NeighborWorks organizations are one-third less likely to become 90+ days delinquent over the two years after receiving their loan than are borrowers who do not receiving pre-purchase counseling from NeighborWorks organizations. The finding is consistent across years of loan origin, even as the mortgage market changed in a period of financial crisis. It applies equally to first-time homebuyers and to repeat buyers.

ES- 1: Estimated probability of loans becoming 90+ days delinquent within 24 months of origination

Year Loan Originated			
	2007	2008	2009
First-time Homebuyers			
With counseling	4.7%	3.1%	2.0%
No Counseling	6.9%	4.6%	2.9%
Difference	-2.2%	-1.5%	-1.0%
% Decline	-32.2%	-32.7%	33.1%
Repeat Borrowers			
With counseling	6.1%	4.1%	2.6%
No Counseling	9.0%	6.0%	3.9%
Difference	-2.8%	-1.9%	-1.3%
% Decline	-31.7%	-32.4%	32.9%

Source: Authors' analyses of logit model parameter estimates

The methodology employed deals directly with the primary challenge affecting previous work on the impacts of pre-purchase counseling: selection bias and is only possible because of Experian's participation. The concern is that people who enter counseling may have unobserved characteristics in the way that they manage credit that both lead them to counseling and improve (or reduce) their mortgage performance. Without a way to control

for the “unobservables,” statistical analysis could yield an overstatement (or understatement) of the effect of counseling itself in statistical estimations. This effort mitigates that risk and minimizes any potential bias in three ways.

First, Experian uses a procedure called propensity scoring to select a comparison group that has the same observable characteristics as counseled clients. Second, the study estimates program effects with data that contain extensive detailed information about borrowers’ credit practices and behaviors both at origination and prior to receiving their mortgage. Inclusion of variables that measure credit behavior prior to seeking counseling assistance reduces the impact selection bias would have on loan performance, by controlling unobservable traits related to a client’s financial capabilities and ability to remain current on financial obligations... The results demonstrate that pre-purchase counseling and education retains—indeed—increases its substantial independent impact when such measures are included in the analysis.

The work also breaks important ground in examining counseling taking place throughout the U.S., by a large number of separate non-profit organizations, rather than in a single place or organization. At the same time, the fact that the NeighborWorks’ network has common counseling standards provides for some consistency in the counseling services provided. Further work on the role of the specific nature of the counseling in determining performance, on performance over a longer period following loan origination, and on the indirect impacts of counseling through their effect on mortgage product choice, could well be fruitful future directions for research.

ⁱ NeighborWorks America also provides training for counselors who work for other organizations. We did not measure the impact of counseling performed by these non-NeighborWorks organizations.