Financial Counseling and Financial Health

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Financial counseling is a great resource for consumers looking for help with their finances. The first financial counseling programs initiated in the country were carried out by credit unions, mostly geared to crisis intervention and financial education (Pulvino & Lee, 1979; Williams, 1991). As a profession and a field of study, financial counseling is relatively young, only about 30 years old. The need for certified counseling programs led to the creation of the first accredited financial counselor (AFC) designation in 1992 by the Association for Financial Counseling and Planning Education (AFCPE) that itself launched in 1984 (see Burn, 2008, for a brief history of AFCPE). AFCPE has taken the banner in educating, training, and certifying financial counselors, financial educators, and housing counselors (AFCPE, n.d.).

Concepts and Procedures of Financial Counseling

Circa the formation of AFCPE, Mason and Poduska (1986) distinguished financial counseling from financial planning in fundamental ways. Their discerning criteria included (a) the types of clients/problems presented, (b) criteria clients used for self-evaluation of outcomes, and (c) services provided and training required. More recently, Archuleta and Grable (2010) also recognized that financial counseling and financial planning are well established, and *different* fields of studies and practices. They noted that the practices of both fields differ in terms of clients' outcomes, but both approaches rely on similar processes. According to Archuleta and Grable (2010), financial counselors tend to be more *reactionary* in nature. In contrast, financial planners work with clients' financial assets, in a more *future-oriented* and *proactive* manner, by using products and services that meet their clients' financial goals. Although such practices may serve different clientele, they all seek to facilitate clients to achieve financial well-being.

In practice, the term financial counseling is often used interchangeably with financial education and financial planning (Delgadillo, 2014a). Financial counseling commonly refers to what counselors do, what skill they should possess, and what processes take place in a counseling situation. According to these organizations, financial counselors (FC) assist individuals and families in the complex process of financial decision-making. They possess skills that include the ability to (a) educate clients in sound financial principles, (b) assist clients in the process of overcoming their financial indebtedness, (c) help clients identify and modify ineffective money management behaviors, (d) guide clients

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in developing successful strategies for achieving their financial goals, (e) support clients as they work through their financial challenges and opportunities, and (f) help clients develop a new perspective on the dynamics of money in relation to family, friends, and individual self-esteem. Additionally, counselors should be proficient in listening skills, problem-solving, intervention strategies, and communication processes (AFCPE, n.d; FINCERT, n.d.; Foundation for Financial Wellness, n.d.; GreenPath Debt Solutions, 2014; NACCC, n.d.; NTI, n.d.).

There are content-related competencies that professional financial counselors should master. The AFCPE, NeighborWorks Training Institute (NTI, n.d.), and more recently the Department of Housing and Urban Development (HUD) are nationally recognized organizations that list these competencies. According to these institutions, a financial counselor must be knowledgeable about financial topics such as:

- Budgeting, credit, overcoming financial indebtedness, and money management behaviors;
- Basics of insurance, taxes, investments, retirement, and estate planning; and
- Student loans; bankruptcy, repossessions, and fraud, among others (AFCPE, n.d.).

For those specializing in housing counseling, they must also know about

- Real estate industry, mortgage lending products, landlord/tenant issues; and
- Real estate transactions, mortgage prequalification, mortgage affordability and sustainability, barriers to homeownership, post-purchase issues including foreclosure intervention and default counseling (AFCPE, n.d.; HUD, 2014; NTI, n.d.).

Pulvino and Pulvino (2010) defined *strategic financial counseling* as "the process of defining specific financial objectives, developing workable plans, and using appropriate skills in a humanistic way to achieve the objectives" (p. 2). To counter a rumored conceptualization of counseling as a purely remedial financial intervention, financial counseling can take three diverse forms: remedial, preventive, and productive and these forms "are not mutually exclusive" (Pulvino & Pulvino, 2010, p. 3). Remedial financial counseling is used when clients experience some kind of economic distress and are in need of immediate intervention. Productive financial counseling is suitable for clients who are financially stable, do not need to overcome immediate financial difficulties, but need to utilize their resources in the most productive way. Preventive financial counseling has features of both remedial and productive counseling and is used when the client "perceives a need for the productive use of resources to prevent the need for remediation" (Pulvino & Pulvino, 2010, p. 6).

In regard to processes, remedial, preventive, and productive counseling all use similar intervention and communication practices (i.e., developing the working relationship, gathering client data, analyzing and diagnosing clients' needs, setting goals, and establishing and devising plans of actions). Nevertheless, the counseling process develops and evolves differently according to the type of counseling.

The developmental stages of preventive and productive counseling resemble the six stage processes in the financial planning process explained by Lytton, Grable, and Klock (2006). This process maximizes the client's use of resources for medium- or long-term goals. The author of this chapter sees the development process for preventive and productive counseling as follows: (a) Building the relationship, (b) Exploratory state, (c) Medium–long-term goals, (d) Action plan, (e) Monitoring (allowing for adjustments), and (f) Evaluative process of client's outcomes.

After building the counseling relationship, Pulvino and Lee (1979) described that the second step in the remedial counseling process is diagnosis. Diagnosis is a "systematic attempt to understand clients and their financial situation" (Pulvino & Pulvino, 2010, p. 226). Typically, the diagnosis is a procedure used to identify a problem. Counseling uses diagnosis to guide the action plan. For instance, foreclosure counselors use diagnosis to decide what kind of workout is pertinent to resolve the crisis (e.g., a loan in default). In this case, the diagnosis of the client's situation is tied to an action plan pre-determined by a loss-mitigation protocol. The author of this chapter sees the developmental stages in a remedial counseling session as follows: (a) Building the relationship, (b) Diagnostic stage, (c) Short-term immediate solution, (d) Choose pre-determined action plan specified by a protocol, and (e) Implementation of the action plan.

A common specialty within financial counseling is housing counseling, which includes rental counseling, reverse mortgage, pre-purchase counseling, and post-purchase counseling (HUD, n.d.). Rental counseling addresses needs and concerns, including delinquent rents, a pending eviction, difficulty in securing an affordable rental, Fair housing laws, tenant rights and responsibilities, and the potential impact of credit scores on securing a rental unit.

Reverse mortgage counseling provides information, mostly free or at very low cost, to the borrower. Reverse mortgages (RMs) are mortgage programs that enable the borrower to withdraw some of the equity in their home without having to make payments to the lender. RMs insured by the Federal Housing Administration (FHA) are also known as a Home Equity Conversion Mortgage (HECM). RM counseling is mandatory for all HECM applicants.

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") has greatly impacted current housing counseling practices. Before current changes are explained, the following section will summarize the history of housing counseling, specifically pre and post-purchase counseling.

Housing Counseling

The groundwork for the housing counseling industry began in the 1960s with the passage of the 1968 HUD Act, in which HUD could authorize public and private organizations to provide counseling to mortgagors in Section 235 and 237 programs. Section 235 provided a low interest down payment subsidy on FHA loans offered through private institutions (Colton, 2003). Section 237 allowed low and moderate-income families, who were unable to meet the normal underwriting standards of FHA's other single-family programs because of their credit history, finance the purchase of new, existing, or substantially rehabilitated single-family homes or condominiums (HUD, n.d.).

Due to defaults that occurred to participants of the Section 235 program in the 1970s, a lawsuit was filed against HUD. Participants in the Section 235 program experienced rates of foreclosure approaching 19 %, which was far higher than the 4 % national rate for mortgages insured under the Federal Housing Administration's Section 203 program (Wachter, 1980). As a result, in 1971 HUD established a process where agencies could become approved to provide housing counseling (Baker & Collins, 2005; Hirad & Zorn, 2001; Mallach, 2001; McCarthy & Quercia, 2000; Quercia & Wachter, 1996).

In 1973, the National Federation of Housing Counselors (NFHC) was created to provide training for its members and to act as a lobby. In 1974, legislation known as Section 801 of the 1974 Housing and Community Development Act, authorized HUD to grant funding for housing counseling agencies. In 1977 and 1987, HUD legislation broadened counseling to include single-family homeowners, emergency homeownership, and home equity conversion (Quercia & Wachter, 1996; Wiranowski, 2003). Although counseling had evolved since the 1960s, the industry remained fragmented because of different counseling types, delivery structures, and funding sources (Quercia & Wachter, 1996).

In the beginning, housing counseling focused on post-purchase counseling due to high levels of mortgage default and foreclosure (Delgadillo & Green Pimentel, 2007). About two decades ago, the industry shifted its concentration from post-purchase to pre-purchase programs, largely due to the advent of lending programs for underserved markets (Baker & Collins, 2005; McCarthy & Quercia, 2000).

Pre-purchase education and counseling are generally conducted as a part of a broader initiative to extend homeownership opportunities. As a consequence, counseling programs are geared mostly toward first-time homebuyers and specifically toward low-income groups, minorities, immigrants, city dwellers, and others who have yet to attain homeownership at the national average rate (Hirad & Zorn, 2001). Pre-purchase education and counseling are designed to better prepare families for the responsibilities of homeownership by mapping out the home buying process, understanding housing affordability (Jewkes & Delgadillo, 2010), encouraging financial planning and money management, and explaining home maintenance and repair issues and concerns (Hirad & Zorn, 2001).

The other primary type of housing counseling is post-purchase counseling. Post-purchase counseling focuses mainly on delinquency counseling to prevent mortgage default. Delinquency counseling attempts to bring borrowers current on their mortgage or to terminate tenure when necessary through less costly or traumatic means than foreclosure (Delgadillo & Green Pimentel, 2007, Wiranowski, 2003).

According to Wiranowski (2003), delinquency counseling has several components including (a) identifying the cause and extent of delinquency, (b) assessing the motivation and resources of the borrower to reinstate, (c) teaching budgeting skills and reviewing the borrower's financial position, (d) negotiating with creditors to arrange repayment plans or modifications, (e) providing referrals for underlying needs, and (f) exploring subsidy programs and foreclosure alternatives. Post-purchase counseling helps borrowers with loss mitigation, which is a service where a third party helps a homeowner handle the process of negotiating mortgage terms with a lender with the aim of preventing foreclosure.

After the 2007–2009 US recession and housing crisis, several initiatives took place to mitigate the waves of foreclosures. Among these initiatives were the FHA secure program, which helped borrowers hurt by the subprime mortgage financial crisis (HUD, 2007); the FHA Forward Program, which was part of the President George W. Bush stimulus package (HUD, 2008); and the 2010 Home Affordable Modification Program, a government-sponsored plan, designed to help Americans on the verge of foreclosure reduce their monthly mortgage payments to more affordable levels (HUD, 2010). Another significant piece of legislation was the 2010 Dodd-Frank Act.

The Impact of the Dodd-Frank Act on Housing and Credit Counseling

In order to meet new requirements pursuant to the Dodd-Frank Act, a new Office of Housing Counseling (OHC) at the US Department of HUD was formed in 2013. The OHC expects to set the standards and implement the requirements to certify and test all housing counselors in 2015 (HUD, n.d.). OHC estimates that the current 2650 HUD-approved housing counseling agencies, employing an estimated 8000 newly certified housing counselors, will assist a total of 2 million renters and owners to obtain, maintain, or preserve their homes. Provisions of the Dodd-Frank Act include new policy initiatives such as HAWK (Homeowners Armed with Knowledge), and the increase in mortgage insurance premiums to correct market deficiencies and to strengthen the FHA Mutual Mortgage Insurance Fund (MMIF; Golding, Szymanoski, & Lee, 2014; HUD, n.d.).

The Dodd-Frank Act amended the Housing Counseling Statute by removing HUD's discretion to certify counseling agencies or individual counselors. The Housing Counseling Statute now requires that all individuals that provide counseling for HUD Programs must be HUD-certified by way of passing a new standardized exam. The Dodd-Frank Act mandates that housing counselors demonstrate competency to provide counseling in each of the following areas: Financial management; Property maintenance; Responsibilities of home ownership and tenancy; Fair housing laws and requirements; Housing affordability; Avoidance of, and responses to, rental and mortgage delinquency; and Avoidance of eviction and mortgage default (HUD, 2014; Office of Federal Register, 2013).

In addition to new standards and competencies for housing counselors, lenders now will play an active role in assessing borrowers' risk. Among the new proposed rules are the General Ability to

Pay Rules (ATP), the Qualified Mortgage Standards (QM), amendments to High-Cost Mortgages, the Truth in Lending Act (Regulation Z or TILA), and the Real Estate Settlement Procedures Act (Regulation X or RESPA).

Under new federal mortgage rules, before a lender originates a mortgage loan, the lender must look at the borrower's financial information and make a determination that the borrower can repay the loan, also known as Ability to Pay (ATP) rule. The lender must *collect* and *verify* information on current income or assets (except the value of the mortgaged property itself); they must calculate the debt-to-income ratio and verify the amount of money left over each month to pay for other non-housing costs (CFPB, 2014).

The ATP rule cannot be determined using teaser rates, which is the introductory low-interest rate in Adjustable Rate Mortgages (ARMs). ARMs required that this rule apply to all mortgage loans, but it excludes certain type of loans that use the home as collateral, including home equity lines of credit, timeshare plans, or reverse mortgages.

Under the 2010 Dodd-Frank definition, a qualified mortgage must meet certain requirements. For example, a qualified-mortgage limits how much of the borrower's income can go toward debt (e.g., no more than 43 % of borrower pre-tax income). A qualified mortgage cannot have the following loan features:

- An interest only period, when the borrower pays only the interest without paying down the principal;
- Negative amortization, when the loan principal increases over time, even though the borrower is making mortgage payments;
- Balloon payments, which are larger than usual payments at the end of the loan term (some exceptions apply among small lenders);
- Loan terms that are longer than 30 years; or
- Mortgages with high upfront points and fees (CFPB, 2014).

In 2014, the Consumer Financial Protection Bureau (CFPB) also issued a final rule to implement the Dodd-Frank Act's amendments to the Truth in Lending Act and the Real Estate Settlement Procedures Act. The final rule amends Regulation Z (Truth in Lending) by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 (HOEPA). It also revises and expands the tests for coverage under HOEPA, and imposes additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement (CFPB, 2014).

The housing counselor providing pre-loan counseling must be federally certified or HUD-approved. The homeownership counselor cannot be affiliated or employed by the organization originating the loan. A mortgagee cannot steer the consumer to a particular counseling agency. The pre-loan housing counselor must confirm that the consumer received all of the high-cost mortgage disclosures before the counselor can issue a certification of counseling. In addition, the rule does not require in-person counseling. Counseling may be provided via telephone, as long as it is provided by an HUD-approved counselor. Self-study programs may not be used to satisfy the pre-loan counseling requirement (CFPB, 2013).

The final rule—also amends the Real Estate Settlement Procedures Act (RESPA)—is known as Regulation X. The rule imposes certain other requirements related to homeownership counseling, including the requirement that consumers receive a list of homeownership counseling providers (CFPB, 2014). As opposed to the pre-loan counseling requirement for high-cost mortgages and negative amortization loans, the final RESPA rule requires mortgagees to provide consumers with a list of counseling resources, but it is up to the consumer to decide if they want to get counseling.

Some exceptions of the Dodd-Frank Act have been granted to state Housing Finance Agencies (HFAs). HFAs are state-chartered authorities established to help meet the affordable housing needs of the residents of their states. The CFPB has exempted all state HFAs from a significant portion of the Mortgage Rules and Servicing Rules. Specifically, loans made by an HFA's lending partners "pursuant to HFA programs" are exempt from the Ability-to-Repay requirement and the Qualified Mortgage definition, safe harbor, and rebuttable presumption provisions. On the servicing side, HFAs are exempt from certain early intervention, continuity of contact, and loss-mitigation procedures. There continue to be aspects of both the Mortgage Rule and the Servicing Rule to which nationwide HFAs must comply.

Additional counseling provisions in the Dodd-Frank Act that impact housing counseling are

- Section 1013 Establishment of the Office of Financial Education within the CFPB.
- Section 1204 Availability of financial counseling in how to conduct transactions and manage accounts.
- Section 1414 Requirement of financial counseling for first-time home buyers obtaining loans with high-cost mortgages.
- Section 1418 Disclosure of counseling availability for hybrid ARMs 6-months prior to rate reset.
- Section 1420 Disclosure of counseling availability in monthly periodic statements for residential mortgages.
- Section 1442 Establishment of the OHC within HUD. This section requires that homeownership counseling addresses the entire process of homeownership, including the decision to purchase a home, the selection and purchase of a home, issues arising during or affecting the period of ownership of a home (including refinancing, default, foreclosure, and other financial decisions), and the sale or other disposition of a home.
- Section 1445 of the Dodd-Frank Act requires that organizations providing counseling, or individuals providing counseling through such organizations, as authorized by section 106 to provide housing counseling in connection with any HUD program, be certified by HUD as competent to provide such counseling.
- Section 1450 Disclosure of list of homeownership counseling providers with early RESPA disclosures for all RESPA-covered loans.
- Section 1451 Disclosure of Home Inspection Counseling. This section requires housing counseling agencies to provide materials on home inspection, as part of home purchase counseling (Office of Federal Register, 2013).

Many of the changes in the housing counseling industry are implemented on the premise that housing counseling works. Although limited in number and scope, research has shown that homeownership counseling has a strong impact on all borrowing decisions because it makes borrowers more fully aware of the choices available (Martin, 2007).

Attempts to measure housing counseling and education have been difficult (McCarthy & Quercia, 2000; Quercia & Wachter, 1996; Wiranowski, 2003). However, few empirical studies have been conducted to determine to what extent housing counseling and education (both pre- and post-purchase efforts) reduce the risk of default (Mallach, 2001; Mayer & Temkin, 2013; Quercia & Wachter, 1996). The differences between programs contribute to the difficulty of measuring housing counseling. Some of those differences include the preferred results of individual agencies (e.g., increases in homeownership or reducing default risk), differences in counselor characteristics, content, quality, duration and depth, the availability of financial assistance, and even variation in marketing (Hirad & Zorn, 2001; Quercia & Wachter, 1996).

One seminal piece on the effectiveness of housing counseling is a study by Hirad and Zorn (2001). Although different counseling programs vary in their effectiveness; borrowers receiving counseling through individual programs experience a 34 % reduction in delinquency rates, all things equal, while borrowers receiving classroom and home study counseling obtain 26 % and 21 % reductions, respectively. Face-to-face counseling was the most effective delivery method according to Hirad and Zorn (2001).

More recently, the finding from a HUD study on pre-purchase counseling outcomes published in 2012 reveals significant results. Of the 574 individuals who became homeowners during the study and received pre-purchase counseling services, only one of the purchasers had fallen at least 30 days behind on his or her mortgage, and none had a major derogatory event on the mortgage account at 12–18 months (Turnham & Jefferson, 2012).

A 2013 Freddie Mac study found strong evidence that participating in pre-purchase homeownership counseling reduces delinquency rates of first-time home buyers by 29 %. Using data of nearly 38,000 fixed-rate mortgages originated under Freddie Mac's affordable lending programs between the years 2000–2009, Avila, Nguyen, and Zorn (2013) found that the estimated dollar value benefit of counseling's reduction in delinquency rates to be about $1000. The different delivery mechanisms including classroom, home study, and telephone counseling were all effective (Avila et al., 2013). Lastly, the time of the counseling intervention is of the essence. Collins and Schmeiser (2010) found that borrowers who received counseling in the early stages of default were far more likely to receive a loan modification and/or keep their homes than those who received counseling when they were seriously delinquent.

Financial Counseling for Financial Health

Financial counselors play an important role in the delivery and facilitation of learning tools to low-income populations. Moreover, financial counselors know when to collaborate with and refer clients to other personal financial professionals or to other resources in the community. They can assist clients in obtaining financial health—a term used to describe the state of one's holistic and integral personal financial well-being (Delgadillo, 2014b). Klontz, Kahler, and Klontz (2008) recognized that personal finances include an amalgamation of both the numerical aspects of money (external finances) and the intra-emotional and inter-relational ones (internal finances). In conjunction, both the numerical and the emotional/relational components provide a platform that supports individual financial health.

Financial health, as opposed to just financial education or counseling, also recognizes that people are at different levels of change. Some people are in the pre-contemplation stage; others are in contemplation; others are in preparation, and others are in action or maintenance stage (Prochaska, 1995; Xiao et al., 2004). Financial counselors can forge the road to new leadership of research and evidence-based principles and practices that will embrace the complexities of today's financial realities. They can do so by (a) understanding the multi-faceted aspects of money; (b) promoting a holistic (integrative) model of behavior change; and (c) developing a strengths-based approach particularly in the realm of finances.

Although there is autonomy among independent financial practices—e.g., financial education, counseling, coaching, planning, therapy—there is also an interdependency. In this chapter, it is suggested that they are all along a financial health spectrum. Financial counseling would be located at approximately the mid-point of the continuum while financial education and literacy would be at the far left, and planning and therapy at far right.

New changes in housing counseling have brought forward a paradigm shift. There is now a clearer linkage and shared responsibility among individuals moving toward economic self-sufficiency and the social and market institutions providing fairness and equity. Housing counseling and, indirectly, financial counseling are now within a larger social agenda. The new paradigm connects financial housing and counseling to meaningful opportunities for borrowers by ensuring a fair access to information and to the financial system. However, to be effective, housing and credit counseling should be considered a complement to consumer protection laws, not a replacement. With such new opportunities, also come new questions that will need to be answered through research. One area of research that needs to be developed is the effectiveness of existing financial and housing counseling programs, definitions of housing counseling standards, clarity of protocols, and the role of HUD's OHC and CFPB in the provision of housing counseling. In addition to that, there is a need to build stronger reporting and feedback capabilities to enhance accountability and performance and to help confirm housing counseling's impact and value for American families.

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