ABSTRACT

# ECONOMICS OF THE LOW-INCOME MORTGAGOR COUNSELING PROGRAM

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The Section 237 Home Ownership Counseling Program for lower and moderate income households whose applications for mortgage insurance have been rejected by the Federal Housing Administration is a concesssion to the fact that members of this group may have acquired poor credit histories and still become responsible homeowners and credit users. Those being accepted for counseling are, for the most part, large younger families in the moderate income category. A comparatively high number of the households have female heads. Relatively few were in occupational categories characterized by comparativly high earnings and, as expected in this program, in the main applicants for counseling had credit problems which had to be resolved before the Federal Housing Administration would certify their mortgage-loans as insurable. The program benefits mortgage-lenders by reducing their collection, delinquency, and foreclosure costs and enabling them to increase the number of loans granted and profits. It also benefits all others in the real estate industry deriving compensation or profit from the sale of houses to Section 237 counselees. Those who purchase homes under the program receive benefits, but prices of lower priced homes, qualified according to Federal Housing Administration standards, are increased because of the program. Buyers bear the cost of the price increases and sellers benefit. Foreclosures under the program have occurred, and one of their causes has been mortgagors not being able to afford major repairs on homes. The consumer education and credit adjustment efforts of the counseling agencies are apparently having some effect. About half the interviewed counselees reported that they had changed how they spent their money and planned because of the agency's efforts.

The costs are, in the last analysis, being born by taxpayers. However, the program does reditribute some benefits (home ownership) not equally available to all in our economy. Whether the taxpayer benefits depends in part on his preference function and on whether the program has sufficient impact to materially alleviate frustrating housing and credit problems of lower and moderate income consumers.