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Homebuyer Education:

A Doorway to Financial Literacy

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Introduction

Homeownership represents the largest investment decision most people will ever make, and qualifying for homeownership requires accountability for previous financial decisions and practices. This moment of financial truth becomes a "teachable moment" or doorway to expand financial literacy. Purchasing a home is the "American dream," but realistically involves the greatest outlay of resources and the highest risk that many individuals will ever undertake. Homebuyer education often leads to a process of intervention and restoration rather than just teaching terminology and consumer awareness. Financial literacy education has been present under the auspices of homebuyer education for most of the last 30 years. Expanding opportunities for homeownership has been a major thrust of public policy for the last 10 years (Mallach, 2001). With the ever-increasing availability of homebuying assistance programs aimed at traditionally underserved groups, it is vital to revisit the literacy issues present in the homebuying process.

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What is financial literacy?

According to the Wall Street Institute, "Financial literacy is a comprehension of financial matters that heightens our ability to interpret and use financial information and data that helps to build and maintain our personal financial security..." (Wall Street Institute, 2001). Many adults are aware of financial issues but fall short of the comprehension involved in literacy. Lacking preparation and the requisite money management skills for maintaining homeownership can lead to disaster. Mortgage foreclosure costs the consumer through loss of property, equity, credit rating, and possible tax consequences. Losses to others are pervasive and include direct effects upon lenders, loan servicers, and mortgage insurers, as well as communities and neighborhoods (Northwest Report, 1997). Research indicates a 26% reduction in 90-day delinquency rates for sponsored affordable mortgage programs when homebuyer education classes are required (Hirad & Zorn, 2001). Additionally, research suggests that financial literacy programs can combat predatory lending (CBA, 2001).

Who needs financial literacy anyway?

According to a report released by the Fannie Mae Foundation, "As many as 12 million households in the United States either have no relationship with traditional financial institutions or depend on fringe lenders for financial services" (Carr & Schuetz, 2001). This figure represents one fourth of lower-income families, one third of African-American and 29% of Hispanic households who are unbanked. These consumers tend to seek financial services from willing and available fringe lenders, bearing the extreme costs of these services and facing problems associated with potentially predatory practices. Low-income and minority families rely on high-cost financial services, in part because they lack education concerning other alternatives and because many less scrupulous lenders target these specific populations they identify as less financially sophisticated and thus more vulnerable (Carr & Schuetz, 2001; Carr & Kolluri, 2001).

Homebuyer Education as an Arena for Financial Literacy

The possibility of attaining homeownership can represent a strong incentive to learn new skills, establish or improve credit histories, and develop banking relationships. For consumers who are at the apex of interest, homebuyer education becomes the delivery point for adult financial literacy.

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The Office of the Comptroller of the Currency provided guidance concerning the aspects of financial literacy classes that make the largest contribution to their success as including 1) basic banking and asset building programs, 2) credit management and credit improvement programs, 3) homeownership counseling, 4) education aimed at recognizing and avoiding abusive lending practices and 5) entrepreneur education programs (OCC, 2001). A report from the Federal Reserve Bank of Philadelphia proposes that course content is the most vital element of pre-purchase homebuyer education (Mallach, 2001). National standards for homebuyer education mandate that the curriculum include money management, credit, and lending issues, including avoiding predatory lending and loss mitigation tools. Private mortgage insurance and sponsored assistance programs have dramatically increased opportunities for homeownership to underserved audiences. These audiences are the same people who are least likely to have relationships with mainstream financial institutions. Their reliance on "fringe" financial institutions leaves them without a satisfactory credit history, as these organizations do not relate to the credit reporting agencies. Without a banking relationship, and with little or imperfect credit histories, the homebuying process can propel these audiences into seeking mortgages from more costly sources.

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Recommendations

National homebuyer standards recently established by the American Homeowner Education and Counseling Institute (AHECI, 2000) are aimed at providing a minimum level for understanding all the processes and skills needed to maintain homeownership. The Oklahoma Homebuyer Education Association (OHEA) initiative was established to encourage standards across the state, prepare professionals to deliver homebuyer education that is relevant and specific to Oklahoma, and monitor and support service provider organizations. OHEA and Oklahoma Cooperative Extension Service have joined to provide staff development for homebuyer education professionals. These certification workshops focus on the 10 core competencies established by AHECI and add a half-day dedicated to financial literacy education. Though the partners involved in educational assistance offer many solutions and resources, there remains a gap in the resulting knowledge. It is because of these deficiencies that the authors make the following recommendations:

1. Bridge the gap between knowledge and application. As educators we recognize that purchasing a home requires both knowledge and application. The consumer learns about and understands what financial services are available, and actually uses them. Homebuyer educators avoid making assumptions about the ability to apply financial literacy concepts. For example, while homebuyer education curricula often advise potential buyers that they may have to make loan payments to a loan server different than the name on the mortgage, no curricula asks how the buyer plans to make that payment. Some experienced educators have assumed buyers would forward a check for the mortgage payment to the loan servicer, only to find later that first-time purchasers have actually gone into foreclosure waiting for someone to come and collect the payment.

2. Recognize the needs of inexperienced homebuyers. Inexperienced homebuyers may take information literally, and know little or nothing of the most basic responsibilities inherent in homeownership. Anecdotal evidence of new owners calling the lender or realtor when plumbing problems occur is an example of what can happen. Most homebuyer education curricula suggest that the first step for homeowners having problems making the mortgage payment is to contact the lender. For consumers who have never had a relationship with mainstream financial institutions, this is a new experience.

Such homeowners have little or no foundation for contacting the lender. Stepping back and accounting for cultural and experiential differences when explaining what is expected of consumers and what they can expect from others is the key to successful learning.

3. Include partners in the homebuying education process. Not only do partners possess particular knowledge of subject matter but also each has a different perspective on the process. For participants in classes, each partner is viewed as an expert with the added value of providing variety. Cooperative Extension educators, credit counselors, lenders, insurance agents, appraisers, inspectors, and home improvement store personnel are only a few examples of willing partners in statewide programs in Oklahoma. Involving these partners engages participants with potential sources of information and assistance. Participants begin developing trusting relationships with service providers. This may increase the likelihood of their seeking help when needed later.

4. Provide leadership for successful partner participation. Homebuyer education professionals provide partners with an outline of the content to cover, and pay close attention during their presentations to ensure that all topics are covered. Missed information can be provided later, or covered by a well-posed question to the guest presenter. Partners become familiar with the learners' level of literacy. It's safer to ask a few questions that will indicate level of literacy than to provide education over the participants' heads. While there may not be enough class time available to teach one or two participants the value of a checking account, an appropriate partner can create learning experiences in which participants discuss how and where to obtain the information.

Homebuyer education is ripe with financial literacy issues and incentives for applying them. There may be no other time when the need for consumer awareness and the consumer's desire to comprehend financial issues will be any greater. Educators can capitalize on this opportunity to promote financial literacy through the dream of homeownership. This is not a place for trial and error. There must be a plan. Sensitivity to the level of literacy reflected in the homebuyer education class will ensure issues are appropriately addressed. The rewards of home ownership are great and we are eager to share them with families reaching toward self-sufficiency.

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