



Fannie Mae™

Pre-Purchase Homeownership Education Qualitative Research: Lower-Income First-Time Homebuyers

Research Report

Released on April 4, 2017





Table of Contents

<input type="checkbox"/> Research Background & Objectives	3
<input type="checkbox"/> Research Methodology	4
<input type="checkbox"/> Executive Summary	6
<input type="checkbox"/> Implications/Opportunities	9
<input type="checkbox"/> Detailed Findings	
▪ Current State & Motivational Barriers	11
▪ Referral Practices	15
▪ Feedback on Homeownership Education Program Features	18
<input type="checkbox"/> Appendix: Research Participant Profiles	26



Research Background & Objectives

A review of academic research reveals that the impact of homeownership education programs targeting low-income homebuyers is unclear. Program participants' characteristics and financial management habits, program type (high touch vs. low touch), timing (pre- vs. post-purchase, early vs. later pre-purchase), length of program participation, and topics covered by the program all interplay to affect participants' motivation and subsequent program outcomes.

Nevertheless, many industry participants across government agencies, investors, lenders, real estate agents, counseling/education providers, and consumer advocates want to provide valuable homeownership education that benefits consumers and ultimately the housing industry. The key challenge is how various industry players can collaborate to improve the current practice to make this service more valuable (in meeting different players' needs/goals) and work together to revamp the service into a program that is widely received and highly respected.

This research focuses on **pre-purchase homeownership education/counseling**, in general. The main goal of this research is to gain insights from three different industry players' perspectives (consumers, real estate agents, and loan officers) on how to make pre-purchase homeownership education programs targeting low-income first-time homebuyers more valuable.

Specific objectives include:

- **Understand current practices and experience with pre-purchase homeownership education (HE) programs:** Awareness, types of programs, sources of referral, timing, incentives, and what does/doesn't work
- **Gain insights on motivation, needs, and the ideal future state for this type of program.**
- **Identify gaps and opportunities to close the gaps or otherwise change/optimize these programs.**



Research Methodology

Qualitative methodologies are used to develop insight and direction, rather than quantitatively projectable measures.

- Due to the sample size, the recruitment methods used, and the study's objectives, these findings are exploratory in nature.
- The findings are not intended to be projectable to a larger population.
- Note that throughout this report, respondents' own words (verbatim) are shown in italics. Verbatims are reconstructed from Moderator notes and may be rephrased slightly to clarify meaning.



Research Methodology

- 54 individual in-depth interviews (IDIs) and 8 two-hour mini-group discussions were conducted across four markets, among lower-income first-time homebuyers as well as professionals (real estate agents and loan officers) who have experience working with lower-income first-time homebuyers and homeownership education/counseling.

Target	Definition	Dallas	Memphis	Cleveland	Knoxville	Total # Groups/IDIs	Total Respondents
Homeowners	<ul style="list-style-type: none"> Low-income or lower-middle-income first-time homebuyers Purchased a first home in past 6 months 75% had experience with a homeownership education (HE) program 	11	10	11	10	42 IDIs	42
Renters	<ul style="list-style-type: none"> Low-income or lower-middle-income renters who have never owned a home Plan to get a mortgage for home purchase in next 6 months Have done steps beyond "just looking" (e.g., mortgage pre-qualification) 	2	3	3	4	12 IDIs	12
Loan Officers	<ul style="list-style-type: none"> Have experience processing loans for lower-income first-time homebuyers and HE programs 	1 group of 6	1 group of 6	1 group of 5	1 group of 5	4 groups	22
Real Estate Agents	<ul style="list-style-type: none"> Have experience helping lower-income first-time homebuyers and HE programs 	1 group of 5	1 group of 5	1 group of 5	1 group of 6	4 groups	21

- Required household income varied by market:
 - Dallas <\$65K
 - Memphis <\$45K
 - Cleveland <\$55K
 - Knoxville <\$45K



Executive Summary



Executive Summary – Current Practice, Awareness, and Motivational Barriers

- ❑ **Both lower-income first-time homebuyers and professionals (loan officers and real estate agents) see the value of pre-purchase Homeownership Education (HE).**
 - All agree that HE gives borrowers knowledge, confidence, and empowerment to be *"financially and emotionally prepared"* for homeownership.
- ❑ **But, in current practice, HE participation is limited to the referrals made by loan officers for loan qualification requirements or benefits such as down payment assistance, late in the home-buying process.**
 - An *"only when required"* mindset dominates. There is little to no consumer awareness of HE opportunities – except to the extent required for specific loans. There is considerable fragmentation in the HE landscape. Virtually no consumers and only a few professionals understand the range of HE providers and HE offerings.
- ❑ **There are motivational barriers to wider participation.**
 - For borrowers... HE involves time and inconvenience. It's *"another hoop to jump through"* during an already stressful time. It sounds like school and involves coming up with more money if a fee is involved.
 - For loan officers... HE is one more thing on the long list of paperwork to make the deal happen. Loan officers have a deal-centered, transactional mindset. Some are concerned that borrowers will learn something that could kill the deal or lead them to other lenders.
 - For real estate agents... There is an overall *"not my job"* mindset. Real estate agents have no concrete incentive or motivation to refer their clients to HE. They view lenders as experts on loan-related steps and process and want to guide/control their clients themselves. Like loan officers, they are concerned that borrowers might connect to another real estate agent or deal.



Executive Summary – Program Features

❑ Feedback on Homeownership Education (HE) program features include:

- **Content:** Both consumers and professionals agree that the current content is comprehensive and helpful, spanning the entire process from creditworthiness, through home shopping and the loan application process, to closing and home maintenance.
- **Channel:** Homebuyers interviewed indicated a strong preference for learning **in-person** versus online because they value personal interaction, customization, and a hands-on approach to learning, rather than a more traditional passive style.
- **Incentives:** Across consumers and professionals, incentives are viewed as critical to motivate HE participation. There is almost no voluntary participation by consumers or professionals. Consumers see the value in these programs only after the fact and will not be motivated to participate without concrete incentives.
- **Timing:** Poor timing was a key complaint. HE usually happens too late in the process – two to three weeks before closing. Both consumers and professionals say that the ideal timing is around the time of loan pre-qualification.
- **Trusted HE Providers:** While most view loan officers as the logical source of referrals, they also feel that government-sponsored affiliation lends an extra layer of objectivity and credibility to HE programs.



Implications/Opportunities



Implications/Opportunities

Building on the shared belief that HE is valuable, explore opportunities in the following key areas...

- ❑ **Personalization and Relationships:**
 - ❑ **“Give me a coach.”** Explore ways to build relationships and offer more opportunities for personal contact/connections.
 - ❑ **“Make it more personal to me.”** Make the content less generalized and abstract. Ensure that information is specific to homebuyers and their particular situation.
- ❑ **Timing: “Tell me to take it earlier.”** Encourage early participation, around the time of loan pre-qualification.
- ❑ **Incentives: “Give me incentives.”** Find and publicize the win-win. Ensure that incentives are significant, tangible, and well understood.
- ❑ **Messaging: “Help me feel proud and empowered.”** Communicate more directly with all audiences. Build on the pride that homeowners take in getting the right assistance with decision-making and the loan/house itself.
- ❑ **Referral Source: “Make the loan officer as the HE coordinator.”** Focus on lenders, rather than real estate agents, as the primary source of HE referrals. Arm them with more information so that they can communicate the benefits of HE, even beyond the financial incentives.
- ❑ **HE Landscape: “Simplify, centralize, and clarify HE offerings.”** Look for ways to simplify and unify the offerings, compared with the current complexity and fragmentation.



Detailed Findings

- Current State & Motivational Barriers**
- Referral Practices**
- Feedback on Homeownership Education Program Features (Content, Channel, Incentives/Fees, Timing & Trusted Providers)**



Awareness & Perceived Value of Homeownership Education (HE) Programs

❑ Both consumers and professionals see the value of HE.

- All audiences agree that the main purpose of HE is to give borrowers knowledge, confidence, and empowerment to be *"financially and emotionally prepared"* for homeownership.

❑ However, most consumers interviewed had little or no awareness of pre-purchase HE classes unless or until required to take one.

- A few had heard about classes from friends or relatives or through local community organizations (such as church), but most didn't know that they exist. Awareness among renters was even lower.
- Consumers who took HE had little to no recollection of the name or provider of the HE they took, or even of their particular loan. Some, but by no means all, knew their lender and/or loan officer.

❑ Among professionals (real estate agents and loan officers), awareness is higher and is driven mostly by 8-hour in-person classes required by particular loans or down payment assistance programs.

- Loan officers and real estate agents are aware of mandatory in-person HE programs (e.g., for government loans with HUD-approved education providers), but less aware of non-mandatory or online HE options.
- Some offer their own 2-hour seminars, primarily to generate sales leads for their own practices.



Motivational Barriers To Wider Participation Among Homebuyers

- ❑ **There are motivational barriers to wider participation in homeownership education (HE) among homebuyers:**
 - HE involves time and inconvenience. It's "*another hoop to jump through*" during an already stressful time. Many homebuyers said they feel bombarded by many requirements that they don't really understand or have time for.
 - To some, it sounds as if they're being asked to take a step backward – to go to school – at precisely the time they'd rather be independent and doing "*the fun stuff*," like looking at houses, "*not stuck going to some class*."
 - It also means coming up with more money (if a fee is involved) at a time when finances feel particularly tight.

- ❑ **Despite consumers' stated desire for education, they took HE classes because they had to, not because they wanted to. Most of the classes taken were required for loan qualification or for down payment assistance benefits, as requested by loan officers.**
 - Consumers took those classes not because they wanted to, but because they had to. Loan officers and real estate agents agree that even though consumers are passionate about buying their homes, very few would want to do a class unless it's required.
 - Although consumers overall want more knowledge, other than doing research online, they rarely actively seek out education opportunities from professionals or enroll themselves into a class (whether online or in-person).
 - "Incentives," such as down payment assistance and qualification for certain loans, are critical in motivating consumers to take the class. For many, the "certificate" is needed proof for loan qualification, not an achievement.



Motivational Barriers To Wider Participation Among Professionals

- ❑ **A key motivational barrier to wider participation in homeownership education (HE) among professionals is fear of giving up control of their clients' thoughts and actions with regard to a potential deal.**
 - Both loan officers and real estate agents share this practical concern about the potential to lose clients/business.
 - While educating clients themselves requires time, they often enjoy the relationship and feelings of power and mastery that this provides.

- ❑ **In addition to this important similarity, there are differences in how professionals view HE, based on the different contexts and processes that each professional manages:**
 - For loan officers, HE is one more thing on the long list of paperwork to make the deal happen. They have a deal-centered, transactional mindset. Despite knowing loan nuances, they often lack bigger-picture knowledge of HE programs, options, or providers. Unless a loan requires it, they have no real reason to refer clients to HE.
 - For real estate agents, there is an overall lack of awareness/understanding of HE and a “*not my job*” mindset. They have no concrete incentive or motivation to refer their clients to HE. They view loan officers or mortgage brokers as experts on loan-related steps and process. While it's easy enough to suggest that HE could be beneficial to some clients and seem caring and supportive in so doing, they have no leverage to require it.



Detailed Findings

- Current State & Motivational Barriers**
- Referral Practices**
- Feedback on Homeownership Education Program Features (Content, Channel, Incentives/Fees, Timing & Trusted Providers)**



Key Drivers Of Referral

- ❑ **Professionals' referrals to homeownership education (HE) are almost exclusively driven by specific loan products, which are controlled primarily by loan officers.**
 - Most referrals are made by loan officers, who tell borrowers that they will need to take the government agency-sponsored 8-hour in-person class because of qualification requirement. Other than that, loan officers do not make referrals.
 - Real estate agents rarely refer their clients to HE classes, although some of them mentioned making referrals to credit counseling educators for clients who have credit issues. A few say they may occasionally mention that such classes exist but not make a specific referral.
 - Some real estate agents report having preferred loan officers that they work with again and again. Often, they have a few people with whom they have built this relationship. These loan officers may help them, over time, learn about types of loans or programs, but they mostly defer to the loan officer to decide on a specific loan and the HE it requires.
 - Most real estate agents also say they will not show any homes until the homebuyer is pre-qualified. At that stage, they will have determined the homes that are appropriately priced and/or that qualify for particular loans associated with HE. In some cases, there may be a bit of a *"joint referral"* to HE (where both the real estate agent and loan officer are aware of the HE requirement, and both may encourage the homebuyer to attend).

- ❑ **Very few consumers said they were told or given information about non-mandatory education programs during the home-buying process.**
 - Those who had heard of these programs said they sounded like a good idea. But in the absence of incentives, they had usually not chosen to pursue them.



Professionals' Roles In Referral

- ❑ **Consumers report that professionals' roles and involvement in educating or coaching them is quite variable.**
 - Some describe a minimal role for one or both professionals. Real estate agents were there mainly to show houses, and loan officers primarily oversaw the mortgage application process and documents.
 - Others described a more involved role, including education, counseling, and emotional support. A few say they now have an ongoing relationship with a professional who helped them – more commonly the real estate agent.

- ❑ **Similar variability was reported for explicitly referring homebuyers to homeownership education (HE) classes or programs.**
 - Some real estate agents say they are involved in guiding homebuyers to particular loans or types of loans or assistance programs, but most loan officers say that deciding on a particular loan is highly complex (*"like an algorithm"*).
 - For the most part, homebuyers say that the loan officer is the one who gets into the details of specific loans and loan requirements, including referral to a particular HE program.
 - Referrals are usually very specific and linked to the loan or program. Very seldom do professionals refer homebuyers to HE just for their general benefit/knowledge. When this happens, it's usually to a shorter 2-hour class and with some expectation that it will build sales and/or a personal relationship.



Detailed Findings

- ❑ Current State & Motivational Barriers
- ❑ Referral Practices
- ❑ **Feedback on Homeownership Education Program Features (Content, Channel, Incentives/Fees, Timing & Trusted Providers)**



Homeownership Education (HE) Content

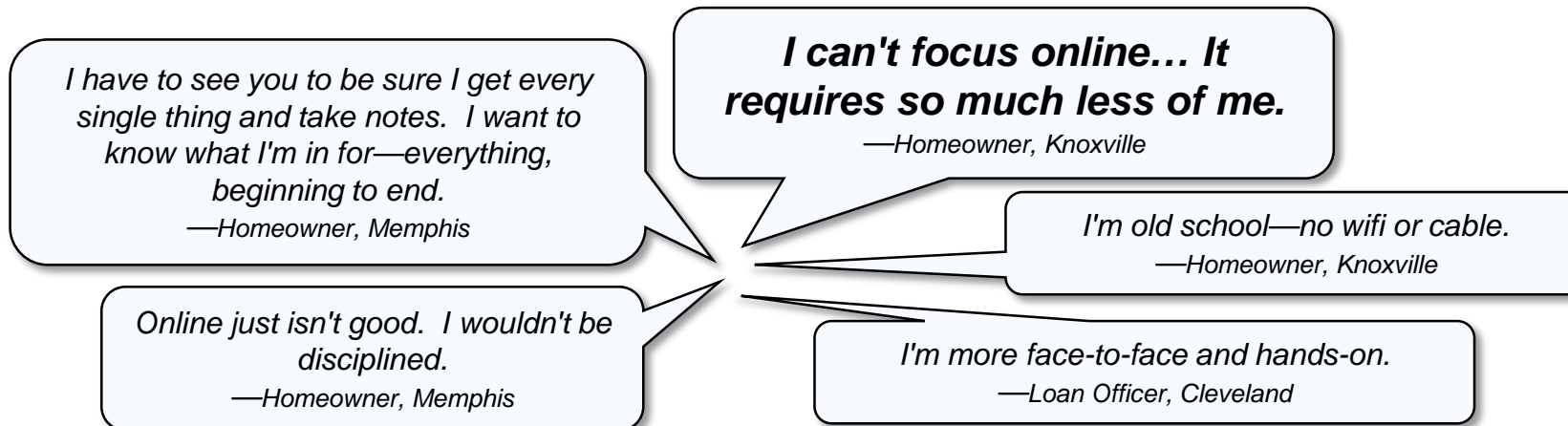
- ❑ **Most consumers who have participated in HE found the content very helpful.**
 - They consistently reported that HE covers many important topics, including personal finances (e.g., budgeting, saving), affordability, credit score/history, appraisal, inspection, mortgage application and approval process, and home maintenance.
 - The topic of credit counseling is often mentioned as especially important and valuable. Many talk about fixing credit or building credit history as the key first step in working toward homeownership.
 - The happiest participants seem to be those who actively engaged with the HE – e.g., through activities, role play, Q&A, games. Those who liked the classes best described an experience, not just content.

- ❑ **Some received and kept a book that summarizes the curriculum and key learning content.**
 - A few say they have shared this book with others or returned to it when they had questions, but most seem to view the value as more symbolic.
 - Several suggested that an online destination for this material would be more convenient and useful.



Preference For In-Person Homeownership Education (HE)

- ❑ **Most prefer that HE be conducted in-person, rather than online, driven by their need to really understand the material and apply it to their own situations.**
 - Once consumers have taken a class, they know how much information is involved. They want to engage fully and ask questions in real time. They want to learn from questions other people ask but that they may not think to ask themselves. They are afraid of missing something important.
 - They are generally hands-on, experiential learners. Online HE is typically associated with more distractions or even falling asleep.
 - Language and terminology was a real challenge for many. Many want/need personal explanation of key vocabulary and concepts.
 - A few said they don't have access to the Internet on a computer (though virtually all have mobile phones).
 - Importantly, professionals – particularly real estate agents – have a strong preference for in-person interaction with their clients. While loan officers do a lot of their communicating online, they still question the value of online learning and think that in-person HE is preferable.





Views of Online Homeownership Education

- ❑ **A few younger, more educated consumers said they prefer online classes, mainly for its convenience and flexibility. They may also view it as less "sales-y" and more objective.**
 - Those who like online learning focused on flexibility. They acknowledged how busy they are and that, like shopping, online learning can be objective and efficient. Some said they would want to read favorable reviews of any online classes they might consider.
 - Both fans and skeptics of online learning say that it needs to be highly interactive and entertaining, varied in format and content. It can't be just a lot of passive listening or reading. It needs to be multi-media, using sight, sound, and motion, ideally integrating opportunities for real-time interaction with teachers and/or other students.
 - While some had taken online college or work-related certification courses, these were generally not viewed as fully engaging or effective. They were a way to get through a requirement efficiently but superficially. Some who had taken classes online described them unfavorably as "boring" or "cheesy."
 - Research participants' preferred online activities were mainly in the realm of social media: Facebook, Instagram, Snapchat, Twitter. Some suggested that online HE should incorporate social media elements and/or be more like games (such as Minecraft) with different simulated scenarios/situations.

I don't want it to be in-person. It's like walking onto a car lot, with lots of hype and people trying to sell me something. I want to do it at my pace and not be pounced on.

—Renter, Knoxville



Attitudes Toward Fees & Incentives

❑ Reactions toward paying a fee are mixed, but everyone agrees that incentives are critical to motivate participation in homeownership education (HE).

- While a few consumer respondents were willing to pay \$50-\$100 for such a class, many think that this type of class should be free. They live in an era when access to information is considered a basic human right.
- Most were reluctant to pay a fee to participate, unless the fee is offset – or even more than offset – by clear financial benefits (e.g., down payment assistance, rate reduction, credit toward appraisal or closing costs).
- Professionals (real estate agents and loan officers) raise concerns that if HE requires a fee, their lower-income clients won't be interested – they simply don't have spare cash. Consumers interviewed confirm this, although some say that they would be willing to pay something in the \$20-\$50 range, particularly if this were recouped at closing.
- Since most classes are taken near closing, consumers often say it wouldn't have been worth any investment for something that they had already learned. Not surprisingly, few think that a fee is more justified for an online class vs. their preferred in-person class.
- A few mentioned that they took what they thought was a required class but then didn't get the loan (for various reasons), which left them feeling that they didn't get the full value from their efforts. If a fee is charged, most expect more than just the learning in return for the time and effort they put in.

***I did it to get the \$3,000.
If it hadn't been for that, I
wouldn't have done it.***

—Homeowner, Cleveland

*The \$75 fee would have been worth it
if it had helped me get a loan, but it
didn't help me.*

—Homeowner, Dallas



Incentives: The Value Of Even Small Win-Wins

❑ Most consumers are very motivated by even small win-win incentives.

- Participants really responded to even a small offer that suggests a win-win, such as \$100 toward closing costs or covering the cost of an appraisal or inspection. It makes sense that both the homebuyer and the lender want a homebuyer process in which the house appraises well and passes the inspection, and the loan transaction closes on time. Participants indicated they appreciate actions aimed at fairness or anything implying there's something in it for both provider and participant.
- Surprisingly, only a few mentioned that the value of the class was in the favorable terms of the loan itself. Some suggested that this should be clarified when the referral is made. That is, instead of, "*You have to take the class,*" focus more on the practical benefits/rewards of taking the class.

A rebate at closing says, "now you're with us." It's a two-way street... transparency. There's a commitment on both sides.

—Homeowner, Memphis

*Help with the down payment would be **the cherry on the top**. It's good to learn, but that gives even more incentive to look into untapped resources.*

—Homeowner, Cleveland



Preferred Timing

- ❑ **Poor timing was a key theme in the research – homeownership education (HE) usually happens too late.**
 - Many homeowners complained that they were asked by loan officers to take the class two to three weeks before closing. They felt anxious, rushed, and forced to take a class.
 - Much of the information covered was already irrelevant – they had passed that stage in the process (e.g., choosing a mortgage, appraisal, inspection) and had learned what they needed to know on their own or no longer cared.
 - Timing/synchronization of content with real-time concern is a key opportunity for optimizing the programs, although it may be complex to implement. A major issue among professionals is that if HE occurs earlier, prospective homebuyers may learn something that makes them want to switch loans or professionals. This is a big barrier to early referral.

- ❑ **Some say they would like to have the class split into two or three modules, so that the content is less overwhelming and more relevant to their immediate concerns.**
 - This, too, may be difficult to implement, since most admit that they liked getting the entire class done in a single day and would have challenges attending multiple classes.

Nine out of ten times, it's done backwards. Homeownership education should happen at pre-qual, not right before closing.

—Loan Officer, Memphis



Trusted Providers

- ❑ **Although no one says much about what might distinguish a preferred provider, most agree that some type of government affiliation makes sense and brings credibility and trust to homeownership education (HE) programs.**
 - Among consumers, HUD- or government-approved implies a level of independent objectivity – i.e., that the education is for the purposes of learning, not selling, and that there will be a standard of quality and comprehensiveness to the education itself.
 - Among professionals, this means that the HE will fulfill requirements of specific loans.
 - In addition, virtually everyone agrees that there is a higher-order value of HE – to give borrowers knowledge, confidence, and empowerment to be *"financially and emotionally prepared"* for homeownership. Thus, there is an acknowledged public service benefit for HE, even beyond payment assistance or lower rates, which makes a government connection seem appropriate.
- ❑ **The instructors are usually known or assumed to be professionals with expertise in particular relevant areas.**
 - A typical 8-hour program is taught by a pair or team of professionals, including a loan officer, real estate agent, inspector, and/or attorney.
 - A few consumers say that they would prefer a class taught by a generalist, who understands all aspects of home buying and can work more as a coach or advisor across the entire process.

I've heard of HUD... I want it to be government-sponsored – I trust them more.
—Homeowner, Memphis

Those HUD homes aren't always the best. I think of distressed homes. But I still think HUD is an objective source of info and education.
—Homeowner, Cleveland



Appendix:

Research Participant Profiles



Consumer Research Participant Profile Summary

Below is a summary of key characteristics of consumers interviewed, by market.

Characteristic	Dallas	Memphis	Cleveland	Knoxville	Total (Across)
• Total # of IDIs	13	13	14	14	54
• Homeowners	11	10	11	10	42
• Renters	2	3	3	4	12
• Hispanic	11	0	0	0	11
• Caucasian	2	0	10	14	26
• African American	0	13	4	0	17
• Other	0	0	0	0	0
• Female	10	11	9	10	40
• Male	3	2	5	4	14
• Homeowners with HE experience	7	10	7	19	33
• Homeowners without HE	4	0	4	0	8
• Renters without HE	2	3	3	3	11
• Renters in Buying Process with HE	0	0	0	2	2
• Online HE class	4	1	3	2	10
• HHI \$10K-\$24.9K	0	0	0	3	3
• HHI \$25K-\$34.9K	1	4	3	5	13
• HHI \$35K-\$44.9K	1	7	2	5	15
• HHI \$45K-\$54.9K	0	2	7	0	9
• HHI \$55K-\$64.9K	10	0	2	1	13
• HHI \$65K-\$74.9K	1	0	0	0	1



Professional Research Participants Profile Summary

Below is a summary of key characteristics of professionals (loan officers and real estate agents) interviewed, by market.

Characteristic	Dallas	Memphis	Cleveland	Knoxville	Total (Across)
• Total Professional Respondents	11	11	10	11	43
• Loan Officers	6	6	5	5	22
• Real Estate Agents	5	5	5	6	21
• Female Loan Officers	4	1	1	2	8
• Male Loan Officers	2	5	4	3	14
• Female Real Estate Agents	2	2	2	6	12
• Male Real Estate Agents	3	3	3	0	9