

**Testimony by Bob Palmer, Policy Director, for Housing Action Illinois for  
House Committee on Economic Development and Housing  
Subject Matter Hearing on Home Ownership  
and Regional Economic Development  
May 20, 2015**

Dear Chairman Evans, Republican Spokesperson McSweeney and Other Members of the Committee:

Thank you for the opportunity to testify today. My name is Bob Palmer. I am the Policy Director for Housing Action Illinois. Housing Action Illinois is a statewide coalition formed to protect and expand the availability of quality, affordable housing throughout Illinois. Our more than 150 member organizations include housing counseling agencies, homeless service providers and developers of affordable housing.

For the hearing today, I'd like to summarize some of Housing Action Illinois' priorities for affordable and sustainable homeownership in the aftermath of the foreclosure crisis and the ensuing Great Recession.

**Supporting Affordable and Sustainable Homeownership Opportunities**

The housing recovery continues, but faces ongoing challenges. Although overall foreclosure volume had declined in recent years, foreclosures are still a problem in Illinois. According to RealtyTrac, 0.85 percent of all U.S. housing units (one in every 118) had at least one foreclosure filing—default notices, scheduled auctions and bank repossessions in 2014; this was the first time since 2006 that the annual foreclosure rate was below 1 percent of all housing units. By contrast, in 2014 Illinois had the fourth highest foreclosure rate in the nation, with 1.38 percent of all housing units with a foreclosure filing.

According to DePaul University's Institute for Housing Studies, single-family house prices in Cook County experienced their seventh consecutive positive quarter in the second quarter 2014.<sup>1</sup> Unlike in recent quarters, countywide price increases were led by strong price growth in suburban Cook County. House prices saw their largest gains in areas heavily hit by foreclosure during the housing crisis, yet these neighborhoods continue to significantly lag other, less distressed parts of the county.

For those that can afford to own a home without being cost burdened, paying more than 30 percent of their income in housing costs,<sup>2</sup> homeownership may be the most preferable option. For severely cost burdened households, paying more than 50% of the income in housing costs, homeownership may not be sustainable. The following tables show that severely cost-burdened households are a small but significant minority of homeowners in various metropolitan areas in Illinois.<sup>3</sup>

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<sup>1</sup> Cook County House Price Index. Institute for Housing Studies at DePaul University. May 2015.

<sup>2</sup> Homeowner housing costs include mortgage payments, property taxes, insurance, any homeowner association or condominium fees, and utilities.

<sup>3</sup> Cost burden data based on 2012 U.S. Census Data from the Harvard Joint Center for Housing Studies. Available at <http://www.jchs.harvard.edu/research/interactive-maps>.

**Cost Burden of Homeowners in the Chicago-Naperville-Elgin, IL-IN-WI Metro Area**

Share of owners without cost burdens (%)	66.7
Share of owners with cost burdens (%)	33.3
Share of owners with severe cost burdens (%)	14.4
Owners with cost burdens	742,153
Owner household median income (\$)	75,200
Owner median monthly housing costs (\$)	1,489

**Cost Burden of Homeowners in the Champaign-Urbana, IL Metro Area**

Share of owners without cost burdens (%)	83.4
Share of owners with cost burdens (%)	16.6
Share of owners with severe cost burdens (%)	6.5
Owners with cost burdens	8,758
Owner household median income (\$)	70,000
Owner median monthly housing costs (\$)	957

**Cost Burden of Homeowners in the Rockford, IL Metro Area**

Share of owners without cost burdens (%)	75.3
Share of owners with cost burdens (%)	24.7
Share of owners with severe cost burdens (%)	9.2
Owners with cost burdens	21,772
Owner household median income (\$)	63,800
Owner median monthly housing costs (\$)	1,054

**Cost Burden of Homeowners in the St. Louis, MO-IL Metro Area**

Share of owners without cost burdens (%)	77.2
Share of owners with cost burdens (%)	22.8
Share of owners with severe cost burdens (%)	9.0
Owners with cost burdens	174,651
Owner household median income (\$)	65,700
Owner median monthly housing costs (\$)	1,020

In this environment, we need state housing policies that value owning and renting equally. For many people renting is a more attractive option, whether it's a very low-income family that cannot afford homeownership, an older person no longer wanting to manage homeownership or young person who doesn't want to be limited in their mobility. For others, rising interest rates, tight mortgage underwriting standards, stagnant incomes, debt and/or poor credit history hamper desires to become homeowners.

State investment in both homeownership and rental housing creates jobs, leverages private investment and generates millions of dollars in local business income, wages and tax revenue.

**The Importance of State Support of Housing Counseling to Create and Preserve Affordable and Sustainable Homeownership**

One of the best ways to create and preserve affordable and sustainable homeownership opportunities, and prevent another foreclosure crisis, is to have an educated and informed

population of homeowners and future homeowners through housing counseling. The State of Illinois is an important resource to support these efforts.

The Illinois Housing Development Authority (IHDA) uses money generated by the Foreclosure Prevention Fund and the Foreclosure Prevention Program Graduated Fund to support foreclosure counseling and education, pre-purchase homeownership counseling and other services. Revenue for these funds are generated through foreclosure filing fees paid the plaintiff. Between May 2012 and January 2015, 82,509 households received assistance from more than 50 different community-based organizations, primarily U.S. Department of Housing and Urban Development (HUD)-approved housing counseling agencies, that were provided more than \$10.2 million in funding.

In addition, in 2013, the Office of the Attorney General began awarding \$70 million in funding from the national foreclosure settlement for housing counseling services and relief efforts for Illinois communities fraught with vacant and abandoned properties that have been hardest hit by foreclosure.

My organization, Housing Action Illinois, uses a small portion of these resources to provide training and technical assistance to housing counseling agencies through place-based trainings and individual technical assistance. These services increase the capacity of housing counseling agencies to assist homeowners. Just one outcome of this program from 2014 was that 30 counselors received the professional certification in foreclosure counseling.

Housing counseling can be the bridge that connects borrowers to safe, affordable, sustainable mortgages. Example of agencies that serve some of your districts include Neighborhood Housing Services of Chicago, Northwest Side House Center, Spanish Coalition for Housing, DuPage Homeownership Center, Consumer Credit Counseling Service of Northern Illinois, and the Justine Petersen Housing and Reinvestment Corporation.

There are many ways in which housing counseling serves this function, including:

- Preparing families for sustainable homeownership by understanding their household income and expenses, increasing their savings, and raising their credit score in order to later qualify for an affordable mortgage;
- Helping borrowers understand different mortgage products and avoid more expensive products if the borrower may qualify for a more affordable mortgage;
- Connecting households with a broad range of private market participants, including multiple lenders, real estate agents, home inspectors, and other providers;
- Helping homeowners avoid predatory loan products; and
- Educating borrowers on first-time homebuyer and other programs for which they may qualify.

Recent research has consistently demonstrated that loans made to borrowers who have received pre-purchase counseling perform better than loans made to comparable borrowers who did not receive pre-purchase counseling. A 2013 study for NeighborWorks America,<sup>4</sup> for example, looked at 75,000 mortgages and found that borrowers who received pre-purchase

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<sup>4</sup> Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks America's Experience. Published by NeighborWorks America. March 2013.

counseling and education were one-third less likely to become seriously delinquent than similar borrowers who did not receive pre-purchase counseling and education.

There are similar findings for people at-risk of foreclosure who received counseling. A 2014 study for NeighborWorks America by the Urban Institute<sup>5</sup> found that homeowners have saved tens of millions of dollars annually because of the National Foreclosure Mitigation Counseling program. Specifically, homeowners working with foreclosure prevention counselors were nearly three times more likely to obtain a money-saving mortgage modification compared to homeowners who didn't work with a counselor. Counseled homeowners who received a modification had their annual payment reduced by an average of \$4,980.

In addition, counselor homeowners were nearly twice as likely to get their mortgage back on track without a modification, about 60 percent less likely to re-default after curing a serious delinquency, and, if necessary, able to complete short sales faster than homeowners who don't work with housing counselors. The research was based on analysis of nearly 240,000 homeowners with outcomes observed through June 2013.

Foreclosure prevention counseling seeks to meet the following goals: to allow homeowners to stay in their homes if that is what they desire; to assist the homeowner in planning an exit strategy into stable housing in cases where the homeowner does not wish to or cannot remain in the home; to maintain or increase neighborhood stability; to help homeowners address underlying issues such as employment or household debt to ensure successful homeownership in the long-term; and to assist homeowners to exit illegal predatory loans and/or refinance into more sustainable, lower-interest loans when that is an option.

The steps for foreclosure counseling include community and industry outreach; initial client intake; assessment of the problem; provision of oral and written information to the borrower; budget management counseling; debt management counseling; legal assistance; financial assistance; referral to additional sources of assistance; contact and negotiation with loan servicers; evaluation of home rehabilitation needs; identification of available loan products for refinancing borrowers out of current loans; and follow-up with clients and evaluation.

According to HUD data for Illinois, 51,161 persons received counseling and/or education from housing counselors between October 1, 2013 and September 30, 2014. Of those assisted, 1,093 purchased homes, 1,227 brought their mortgage current and 1,697 received a mortgage modification. Using a conservative sales price of \$90,000 per home, Illinois counselors facilitated \$98 million of residential investment and helped nearly 3,000 families to remain in their homes during that 12-month period.

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<sup>5</sup> National Foreclosure Mitigation Counseling Program Evaluation: Final Report, Rounds 3 Through 5. Published by NeighborWorks America; Urban Institute. September 2014.