

# **Borrowers who complete homeownership education programs make better refinancing decisions**

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In light of the subprime mortgage crisis that has resulted in extraordinarily high default rates on home mortgages, one might wonder what the government can do to better educate new potential homeowners.

A recently published article appearing in the *Journal of Policy Analysis and Management* found that borrowers who complete homeownership education and counseling (HEC) programs are more informed about when to make refinancing decisions. The effectiveness of education and counseling varies by the type of program.

Researchers surveyed low-income homeowners who purchased a home between 1999 and 2003. They then observed loan performance through the first quarter of 2006, a period of strong growth in home values and steady decreases in interest rates.

Homeowners had completed a variety of different types of homeownership education and counseling from multiple providers across the United States. The type and quality of these programs greatly varied, ranging from intensive classroom-based instruction with individualized attention, to telephone-based counseling, and home study.

Borrowers who completed the HEC programs were more responsive to the financial incentive to refinance than other borrowers. Specifically,

borrowers who participated were more likely to refinance when they could lower their interest rates and by doing so, less likely to refinance during periods when it was not financially beneficial.

The study also found that the impact of education and counseling programs is specific to programs that include classroom-based instruction and/or individual counseling. Programs based on home study or telephone counseling did not show similar impacts.

Source: Wiley

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