

DETERMINING SATISFACTION OUTCOMES FOR COUNSELED FIRST-TIME HOME BUYERS

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Abstract

Various affordable housing initiatives have become available throughout the country since the mid-1990s, with housing counseling offered as a way of preparing low- and moderate-income families for the responsibilities of homeownership. The housing counseling industry increasingly allows low- and moderate-income households the opportunity to experience homeownership for the first time. Evaluative efforts of housing counseling have focused primarily on its financial aspects and have largely ignored the results related to one's choice of housing and community quality. This research examined home buyers' dwelling unit and neighborhood satisfaction after receiving compulsory housing counseling services through an innovative downpayment assistance program. The results of the study revealed that borrowers who attended housing counseling sessions were satisfied with their respective dwelling units and neighborhoods on both an absolute basis and when compared with their previous homes and neighborhoods. In addition, counseled borrowers moved to neighborhoods with improved socioeconomic characteristics when compared to their previous residences.

Introduction

Americans covet homeownership as the realization of the American Dream. Previous research has definitively shown a number of social benefits that homeownership brings (Rossi & Weber, 1996), thus fueling demand for individuals and families to become homeowners. As a result, the federal government has administered policy initiatives specifically aimed at raising the U.S. homeownership rate. To help potential low- and moderate-income homeowners better understand the risks and responsibilities of becoming a homeowner, there are agencies devoted to housing counseling and education which can help these target populations better understand the intricacies of homeownership. These services traditionally focus on addressing default and delinquency concerns once borrowers have become late on

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their mortgage payments. Pre-purchase homeownership counseling and education programs have also proliferated, with the hope that borrower participation in such a program would effectively serve as a risk mitigation tool for lenders in the form of fewer defaults by the borrowing public.

Yet, perhaps one of the most understated goals of housing counselors and counseling agencies is for the borrower household to be generally satisfied with the decision to buy a house. A logical way of determining satisfaction with the decision is through the measurement of borrowers' satisfaction with their dwelling units and neighborhoods. These satisfaction variables take into account home buyers' previous experiences as well, in order to determine whether there has been a "quality-of-life" upgrade for the counseled borrower. The purpose of this study was to determine whether counseled home buyers achieved satisfaction with their residential purchases and whether they improved their residential situations after receiving housing counseling.

Review of Literature

Although research has been conducted on the housing counseling industry, there are still significant limitations in determining housing counseling's effectiveness. The most significant of these limitations include: (a) the inability to establish clear effectiveness measurements, (b) the lack of accounting for differences among housing counseling providers, and (c) a predisposition to use default and delinquency as the dependent variables of choice. Quercia and Wachter (1996) stated that little is known about the effectiveness of homeownership counseling. Much of the past research on housing counseling has focused almost exclusively on the use of defaults and delinquencies as the overall measure of effectiveness.

Meanwhile, McCarthy and Quercia (2000) stated that the reduction of default risk should not necessarily be the only priority of the housing counseling provider agency in order for it to be considered successful. Meyer (1998) also stated the need for research on counseling participants after they become homeowners, as well as conducting follow-up studies to measure how many participants actually became successful homeowners. Finally, the National Housing Foundation's Web site, a clearinghouse of sorts for all information related to or pertaining directly to the housing counseling industry, stated the need for better information on the effects of different types of counseling interventions (National Housing Foundation, 2004).

Industry fragmentation frustrated early efforts to study the efficacy of housing counseling. In fact, the diverse nature of the industry, along with its unregulated environment, has left many stakeholders in the U.S. housing industry worried about the quality and effectiveness of services delivered by housing counseling agencies (McCarthy & Quercia, 2000). Therefore, measuring counseling effectiveness through satisfaction variables allows the social science community and housing

professionals to turn their attention away from the priorities of the banking and lending industries toward those of the individual home buyers.

Research Design

The purpose of this study was to determine whether counseled home buyers are happy with their present living conditions, and whether they constitute an upgrade from their previous conditions. Certain aspects of counseled buyers' experiences with homeownership counseling agencies were examined to determine counseled borrowers' overall satisfaction levels with both the neighborhood and the dwelling unit to which they have moved. It can be assumed that a counseling agency intends to assist a household in navigating its way through the proper steps in choosing the right home and neighborhood for them. As a result, two research questions address the absolute satisfaction level of counseled borrowers' dwelling unit and neighborhood. These research questions are:

RQ1: *Overall, are counseled borrowers satisfied with their new dwelling units?*

RQ2: *Overall, are counseled borrowers satisfied with their new neighborhoods?*

Counselors instruct would-be borrowers about the need to choose the right living situations for them, and advise them that homeownership can provide an improvement in their living situations. Homeownership counseling agencies also counsel clients on the benefits of choosing the right neighborhood and dwelling unit upon becoming a homeowner. One would expect that because the neighborhood is such an important part of the bundle of goods that a borrower receives when making a home purchase, well-counseled buyers are more likely to move into better neighborhoods, where "better" can be identified as having improved socioeconomic characteristics. It is also expected that there will be a similar increase in structure quality. Thus, the following research questions address whether a borrower who has received pre-purchase homeownership counseling uses the opportunity to move his or her family into better housing structures and neighborhoods:

RQ3: *Have counseled borrowers experienced improvements in dwelling unit quality from their previous residential units?*

RQ4: *Have counseled borrowers experienced improvements in neighborhood quality, when compared to their previous neighborhoods?*

Explanation of Data and Variables

The data were collected in the City of Philadelphia and consisted of borrower survey response data, borrower demographic data, and previous and current neighborhood descriptive data. A series of satisfaction scales were developed based on the information obtained from the surveys. These data elements are described more fully below. Survey recipients were counseled borrowers from

the City of Philadelphia who were eligible for settlement grant assistance through a unique program offered by the city government.

The agency directly involved with this program was Philadelphia's Office of Housing & Community Development (OHCD). OHCD is a Philadelphia agency that directly provides settlement grant assistance to Philadelphia's borrowers, with the condition that the borrowers undergo pre-purchase homeownership education and counseling services. (OHCD also requires all area counselors to make available to borrowers post-purchase counseling as well, although in most cases the participation levels in these post-purchase interventions is quite low, usually around 10%.) The program allowed low- and moderate-income borrowers a wide degree of choice of housing type and neighborhood, as long as it was located within city boundaries. Those responsible for setting up this program also felt that an effective counselor would adequately inform borrowers about their available choices of house types and neighborhood locations in the city (Kromer, 2001).

Borrower Survey Data

The primary data were obtained from the 1997 borrower cohort group in a survey format. The survey was completed between October 2002 and May 2003. The questionnaire asked about borrowers' attitudes toward both their neighborhoods and their dwelling units. The responses were coded on a 5-point Likert scale. The survey questions covered not only the homeowners' current homeownership situations, but also their previous housing situations.

Table 1 provides summary statistics on responses from the survey that was sent to the universe of 1,720 borrowers, in which usable responses were obtained from 405, or 23.5%, of the borrowers. The number of usable responses varied slightly by question, simply because some of the respondents chose not to answer certain questions. Response rates by race and ethnicity varied, with non-English speaking populations lagging slightly. The response rate for Whites and African-Americans was similar at about 26%, with Asian-Americans responding at only 20% (there was no identification within the OHCD data regarding to which Asian culture an Asian-American belonged). Hispanics, a difficult population to survey for social science purposes (Marin & Marin, 1990), had a response rate that lagged that of all other groups at about 17%.

Table 1. Summary Statistics for Survey Responses

Race and ethnicity	Total received	Total mailed	Response rate %
White	71	265	26.79
African-American	251	977	25.69
Hispanic	66	391	16.88
Asian-American	17	85	20.00
Other	0	2	0.00
	405	1720	23.55

Borrower Demographic Data

Demographic information was gathered on over 1,700 low- and moderate-income borrowers who received pre-purchase homeownership counseling information in the City of Philadelphia during the calendar year of 1997. The 1997 cohort was chosen because it had a large number of settlement grants issued, as compared with previous years. Table 2 summarizes the demographic data for both the total 1,720 borrowers in 1997 and the 405 survey respondents.

The total population and the survey respondent sub-population had similar demographic breakdowns. In both cases, borrowers were overwhelmingly likely to be African-American. There were also a large number of female-headed households, nearly double the number of male-headed households. The borrower households were usually small, with nearly three fourths having family sizes of three or less. Although only a few of the households were considered very poor (under \$10,000 in income), nearly 80% of the families surveyed (and of those families who responded) had incomes between \$10,000 and \$30,000, which qualified them as low- to moderate-income families. Nearly two thirds (66.4%) of those who received an OHCD settlement grant had spent four years or less at their previous residences (most of the recipients answered this question in multiples of 12-month periods, probably because most renters sign leases for 12-month periods). This meant that they had already lived in their present homes more than they had in their previous homes, given the amount of time that had elapsed since the receipt of their settlement grants.

Previous and Present Neighborhood Data

A number of socioeconomic variables pertaining to the borrowing household's new and previous addresses were also examined, through data obtained from the appropriate census tracts. These census tracts provide a better view of what a neighborhood represents than any other measurable geographic boundary in the public realm (Harkness & Newman, 2002). Census tract variables used to represent neighborhood quality include: (a) median household income, (b) poverty rates, (c) percent of vacant housing units, (d) percent of owner-occupied housing, and (e) median home price value. Theoretically, counseled borrowers participating in OHCD's flexible program try to improve their neighborhood conditions by choosing a situation in which their socioeconomic status improves as a result of a change in housing location.

Development of Satisfaction Scale Variables

The measurement of residential satisfaction is a well-established research construct (DeFrances, 1996; Goss & Day, 1985; Jirovec, Jirovec, & Bosse, 1984; Russell, 1983; Sinai, 2001), and the development of scaled variables to serve as the dependent variables was considered a logical step in completing this research. Residential satisfaction involves the interaction between people's characteristics

Table 2. Demographic Data for OHCD 1997 Borrowers and Survey Respondents

Variable	OHCD total		Survey respondents		Significance level for difference in percentages test
	Frequency	Percent	Frequency	Percent	
Race/ethnicity					
White	265	15.42	71	17.53	.131
African-American	977	56.87	251	61.98	.022*
Hispanic	391	22.76	66	16.30	.000**
Asian-American	85	4.95	17	4.20	.430
Total	1718		405		
Gender					
Male	530	30.81	108	26.67	.045*
Female	1190	69.19	297	73.33	.045*
Total	1720		405		
Household size					
One	281	16.34	69	17.04	.430
Two	467	27.15	111	27.41	.895
Three	455	26.45	117	28.89	.204
Four	289	16.80	63	15.56	.443
Five	136	7.91	30	7.41	.670
Six or more	92	5.35	15	3.70	.093
Total	1720		405		
Income					
< \$10,000	142	8.26	23	5.68	.031*
\$10,000 - \$20,000	729	42.41	182	44.94	.273
\$20,001 - \$30,000	673	39.15	159	39.26	.794
\$30,001 - \$40,000	164	9.54	38	9.38	.776
> \$40,000	11	0.64	3	0.74	.770
Total	1719		405		
Time at previous residence					
0 - 12 months	271	15.76	60	14.81	.552
13 - 24 months	381	22.15	76	18.77	.061
25 - 36 months	317	18.43	81	20.00	.352
37 - 48 months	173	10.06	39	9.63	.743
49 - 60 months	109	6.34	20	4.94	.187
5 - 10 years	240	13.95	62	15.31	.368
> 10 years	229	13.31	67	16.54	.017*
Total	1720		405		

* $p < .05$; ** $p < .01$

and the social and physical components of environments. In constructing the proper model, it is necessary to understand that people have differing perceptions about various physical features about the places where they live and about their neighborhoods. It also includes people's experiences with housing, such as comparisons with prior places of residences (Francescato, 1997). The housing counselor figures into the experience by providing the new home buyer with a

wealth of information that is intended to ensure that the borrower is well-informed, which will ultimately translate into the optimization of residential satisfaction vis-à-vis one's new dwelling unit and neighborhood.

The dwelling unit (DUS) and neighborhood (NS) satisfaction variables for this research were constructed in a scale format and were dependent on survey responses from the borrowers. The scales measure both the *present* satisfaction levels of the borrowers (DUS and NS) and the *change* in satisfaction levels (DUS Δ and NS Δ), when compared against their previous residential situations. The hypothesis is that the borrowers' homeownership counseling interventions would have made a positive impact on their current residential situations. For several questions about negative qualities (e.g., rodent problems), responses were re-coded to conform with the responses to questions about positive qualities. A new "response" to a question not asked directly about the frequency of late mortgage payments was created by combining responses to other questions. Table 3 includes a listing of the survey variables used for each of the scales.

Table 3. Survey Variables Used in Development of Scales

Description	<i>n</i>	<i>M</i>	Description	<i>n</i>	<i>M</i>
Enough floor space	398	4.17	Larger than previous	400	4.01
Needs repairs	402	2.03	Less repairs than previous	400	2.95
Feel safe	399	4.42	Safer than previous	400	3.79
Problems with rodents/pests	400	3.29	Less problems with rodents/pests than previous	394	3.70
Pleased with visual appearance	403	4.18	More visually pleasing than previous	398	4.07
Yard space	401	3.30	Better yard space than previous	396	3.48
Overall physical quality	401	3.97	Overall physical quality better than previous	401	3.91
Convenient access to grocery store	403	4.35	Better access to grocery store than previous	400	3.06
Convenient access to drug store/pharmacy	401	4.53	Better access to drug store/pharmacy than previous	398	3.28
Feel safe	404	3.91	Feel safer than previous	399	3.51
Physically attractive	396	3.77	More attractive than previous	398	3.61
Quality of schools	392	3.22	Quality of schools better than previous	393	3.19
Community activities	397	3.25	More community activities than previous	393	3.05
Many friends	397	3.21	More friends than previous	395	2.94
Noise	395	3.11	Less noise than previous	396	3.33
Convenient access to public transportation	397	4.64	More convenient access to public transportation than previous	396	2.92
Overall quality of neighborhood	402	3.92	Better overall neighborhood quality than previous	401	3.77

Note: Higher mean scores indicate greater satisfaction levels

The dwelling unit satisfaction scales (DUS and DUS Δ) were comprised of seven items, and each had a minimum score of 7 and a maximum score of 35. Both neighborhood satisfaction scales (NS and NS Δ) were made up of a total of 10 items, with a minimum score of 10 and a maximum score of 50. The *Cronbach's alpha* test was used to determine whether there was internal consistency of the items included in the scales. An alpha of .8 is generally considered to indicate good internal consistency for an index, although an alpha of .6 may be acceptable for exploratory research (Carmines & Zeller, 1979). The *Cronbach's alpha* scores were in the "acceptable" range for all four scales.

Study Results

Measured Neighborhood Changes

Table 4 summarizes the neighborhood changes experienced by the Philadelphia counseled borrowers. Overall, the borrowers' moving patterns were mixed and did not necessarily suggest a dramatic shift to higher socioeconomic environments after their 1997 moves. Using a sample test of the means for each of the five neighborhood socioeconomic variables, the data clearly show an overall improvement in four variables, with the only exception being housing vacancies. Thus, it would appear that there is an overall difference between counseled borrowers' previous and present socioeconomic experiences in four of the five socioeconomic categories. In three of the five categories (poverty, owner occupancy, and median house price) a majority of the borrowers actually experienced improvements in the socioeconomic status of their new neighborhoods, relative to that of the neighborhoods in which they previously lived.

Table 4. t-test Results of Differences between Present and Previous Socioeconomic Variables

Variable	Census tract		Difference	t-statistic	Improvement from previous to present neighborhood	
	Present	Previous			% Yes	% No
Median income	\$28,062	\$25,163	\$2,899	12.3***	25.12	66.98
Poverty rate	25.9%	31.4%	-5.5%	-15.6***	51.57	40.52
Housing vacancy	11.7%	11.6%	0.1%	1.1	39.13	52.97
Owner occupancy	66.1%	58.0%	8.1%	19.0***	55.52	36.28
Median house price	\$49,883	\$47,759	\$2,124	3.2**	47.38	44.13

** $p < .01$; *** $p < .001$

Satisfaction Levels

All of the mean scores are beyond the midpoint for each scale, suggesting an overall positive outcome along each of the dimensions measured. The outcomes for present dwelling unit satisfaction (DUS) and present neighborhood satisfaction (NS) all show that the counseled borrower has positive outcomes that a counseling agency would hope for after the borrowers having completed a homeownership counseling intervention. The null hypothesis value for each *t*-test would be the midpoint of each scale (21 for dwelling unit satisfaction and 30 for neighborhood satisfaction). The midpoints for the DUS and NS scales represent a neutral feeling toward each of these levels of satisfaction and performance. The results from the scaled variables can be found in Table 5. In the borrowers' present housing situations, the mean measure for the scale was to the right of the midpoint, which signaled positive dwelling unit and neighborhood satisfaction for counseled borrowers in their current housing situations. The *t*-values were very high, and the significance levels were well within the .05 level of tolerance.

Table 5. Scaled Variable Results, *t*-test Analysis

Scale variable	<i>M</i>	<i>SD</i>	<i>t</i> -statistic	<i>p</i>
DUS	16.69	5.14	-16.27	.00
DUSΔ	22.14	7.07	-21.19	.00
NS	6.69	2.83	-16.18	.00
NSΔ	16.10	5.62	-16.84	.00

The results from the change variables for each of the dimensions measured hint toward something even more encouraging for the counseling community—that the counseling intervention *may* have been a catalyst in allowing borrowers to improve their living conditions vis-à-vis their residence and neighborhood situation. For the change variables (DUSΔ and NSΔ), the midpoint represents a feeling of no change in one's level of satisfaction toward his/her neighborhood and dwelling unit. According to the survey data, home buyers' satisfaction of their neighborhoods and dwelling units improved dramatically from that which they had prior to their counseling experiences. For the change variables, the dwelling unit and neighborhood satisfaction variables had high *t*-values, signifying that the counseled borrowers had experienced significant upgrades in both types of satisfaction. Thus, the hypothesis that there will be improvement in the counseled borrowers' dwelling unit and neighborhood satisfaction levels after the counseling intervention is supported.

Reflections on the Study

Limitations

While these initial results are encouraging to those within the housing counseling profession, the overall effectiveness of pre-purchase homeownership counseling remains in question. The most pronounced limitation of this study is the lack of a control group consisting of non-counseled borrowers. Given data constraints, forming such a control group was not possible. Another exercise which could have provided more meaningful results would have been to account for differences within the agencies in terms of the types of services provided during the counseling intervention. This is important simply from the standpoint that no two agencies are necessarily similar in the way that they deliver their services, the types of materials and content used, and the resources that they have available. This particular research also does not have external validity due to its decidedly urban sample set.

Implications of Research

The most definitive aspect of this research is its shift away from a strict definition of counseling success as stated by the mortgage lending industry to one that is more representative of those who receive housing counseling services. Rather than examining simply whether or not a borrower is consistently performing on his or her mortgage loan (as most previous academic research has), this study looked at outcomes more directly centered on the well-being of the home buyer (in the form of residential satisfaction). While this may seem to be a dramatic shift of focus regarding the dependent variable, it is quite possible that these two definitions of success (loan performance and residential satisfaction) are connected, thus implying that satisfied homeowners are more likely to perform on their mortgage loans and avoid default or foreclosure. If so, the collaboration of the lending industry and the counseling industry becomes even more important in future research endeavors.

In addition, it is not at all clear that there is consensus on any one definition of housing counseling success. Prior research even pointed out that there are multiple ideas about what a “successful” counseling experience should resemble, with much disagreement especially among the professional housing counselors themselves (Housing Assistance Council, 1997). This lack of consensus could signal the need for the academic community to better collaborate with the housing industry in an attempt to find a more meaningful definition of what constitutes success both within the industry and among its clientele.

Suggestions for Further Research

There is undoubtedly a need for a comprehensive research effort on the overall effectiveness of housing counseling. Such an effort would likely need to require

the time commitment necessary to conduct a longitudinal study that follows a cohort of borrowers through a homeownership counseling experience. The ability of the researcher to interview housing counseling participants before the actual intervention would be helpful, in that it would provide a good idea of how much or how little the prospective home buyer knows about the responsibilities of homeownership and the types of things that a knowledgeable homeowner should know before purchasing a house.

A researcher should also be available to attend the counseling sessions within a variety of counseling agencies to help determine interagency differences in delivery method, content provision, and length of sessions. There would be benefits to evaluating the counseling recipient on a post-intervention basis as well. This post-intervention analysis should not just be limited to the period immediately after the housing counseling session has concluded, but should also include various intervals during the early stages of homeownership to see whether lessons learned during the counseling session related to maximizing the benefits of homeownership are being utilized.

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