Welcome to the Center for Financial Security
Family Financial Security Webinar Series
September 13, 2011

Financial Planning for First Time Homebuyers

Sponsored by a grant from the UW-Madison School of Human Ecology Beckner Endowment
Financial Planning for First Time Homebuyers

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Center for Financial Security Webinar Series, September 13, 2011

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Agenda

1. Overview
   - Background of Research Study
   - Needs of First Time Homebuyers

2. Designing Interventions to Meet Homebuyer Needs
   - Financial Health Assessment & Online Financial Planning
   - Telephone Coaching

3. Financial Assessment Results
   - Indicators of Financial Health
   - Comparison of Consenters vs. Non-Consenters

4. Discussion & Feedback
Research Study Motivation

1. Low-income households are less likely to plan for financial goals, including retirement, and less likely to seek out assistance.

2. A first home is the largest purchase most low income households have ever made, and is a teachable moment to provide financial planning assistance.

3. There is a lack of understanding of the effectiveness of different financial planning interventions, particularly those leveraging technology, due to self-selection bias.
   - (Meier & Sprenger, 2007; Barron & Staten, 2009; Collins, 2007; Elliehausen, Lundquist, & Staten, 2007)
Research Study Objectives

1. Design and validate an online financial assessment tool, online visual analytic financial planning modules, and telephone financial coaching protocols.
   1. Appropriate for implementation with low-income populations
   2. Theoretically based, following behavioral finance and goal implementation literature (as well as Treasury’s Core Competencies)

2. Conduct a random assignment field experiment of the relative effectiveness of the above interventions with 600 low-income first time homebuyers.
   1. Partnership with the Ohio Housing Finance Agency provides ongoing access to low income homebuyers and data
   2. Administrative data (credit, mortgage payments, debt) & self-reported data

Overview    Interventions    Results    Discussion
Addressing the Financial Planning Needs of First Time Homebuyers

<table>
<thead>
<tr>
<th>Planning Stage</th>
<th>Challenges</th>
<th>Interventions</th>
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<tbody>
<tr>
<td>Assessing financial well-being</td>
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<td>Myopic decision frames</td>
<td>Financial health assessment</td>
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<tr>
<td>Setting financial goals</td>
<td>Low financial literacy and skills</td>
<td>Interactive and educational planning tools</td>
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<td></td>
<td>Present-oriented time preferences</td>
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<tr>
<td>Implementing financial goals</td>
<td>Procrastination</td>
<td>Setting goals with implementation intentions</td>
</tr>
<tr>
<td>Monitoring progress towards goals</td>
<td>Lack of accountability</td>
<td>External monitoring or coaching</td>
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Online Financial Assessment Tool

- [www.MyMoneyPath.com](http://www.MyMoneyPath.com)
- Online Assessment of Financial Health
  - Behavior based
  - Completed prior to home purchase (pre-closing requirement)
  - Summary of high/moderate/low risk in each of the five key content areas
    - Web-links provided on printable summary; not individualized action plan

- **Content Areas:**
  - Budgeting (Earning & Spending)
  - Saving (Regular Savings)
  - Borrowing (Credit & Debt)
  - Home
  - Retirement
    - (Corresponds to the Treasury Department’s “Financial Education Core Competencies”)

- Overview  **Interventions**  Results  Discussion
The Ohio Housing Finance Agency is partnering with Ohio State University to provide a new, FREE online financial checkup to new homebuyers!

- Get a quick snapshot of your financial health in 5 important areas.
- It only takes about 10 minutes to complete.
- Respond honestly—the information you provide won’t be used to approve your mortgage application.
- The information you provide won’t be shared with your lender.
- And, after you complete the free check-up, you can receive a $25 gift card and additional free financial planning tools.

1. You tell us a little about your financial situation by answering simple questions, like how much you make each month and what kinds of debts you have.

2. We help you understand how your finances are doing, where you can improve, and what you can do in the future.

Have questions? Email us anytime—we’re happy to help!

MyMoneyPath is a free service made possible in partnership with

[Logos of participating organizations]
Guidance

Savings accounts are ones you can take money out of at any time, and that are not tied to specific expenses like education or retirement. Retirement accounts have money specifically put aside for retirement. It may be in a 401k or mutual fund, and you may have to pay a penalty if you take money out before you retire.

Other accounts include investment accounts that are not for retirement and accounts for specific purposes (like education).

Have a question? Need support? Shoot us an email at support@mymoneypath.com and one of our team members will be happy to help.

Check each of the accounts you have below.

- **Savings**: $2,000
- **Checking**: How much do you have in checking?
- **Retirement**
- **Other Accounts**

Is your paycheck directly deposited into your bank account?
- No
- Yes

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**Overview**  **Interventions**  **Results**  **Discussion**
It gets better!

Researchers at The Ohio State University and University of Wisconsin-Madison are conducting a study to evaluate MyMoneyPath and additional financial tools for homebuyers. As a potential homebuyer, you are invited to participate in the study.

What this Means:

You let us use your data, confidentially, for research purposes
You will receive detailed results of your MyMoneyPath check-up by email
You will receive additional, free, financial planning resources
We will e-mail you a $25 Amazon.com gift card just for participating

Sound good? Read the consent information, and select an option below.

Consent Information

Your participation in this study is voluntary. Below is some additional information about the study to review before you decide whether or not to participate. You can contact us by phone at 614-247-8161, or email at support@mymoneypath.com if you have any questions about this study after reading through the information (before or after you decide to participate).

The Process:

We are working with Ohio Housing Finance Agency to evaluate the new online financial check-up tool that...

I have read the consent information above and agree to participate

☐ Yes — It is OK to use my data for research. Please email me my $25 gift card and additional resources.

☐ No — I would not like to participate in the study. I understand that I will not receive a $25 gift card.
Congratulations! You have completed the MyMoneyPath check-up. This is an important step to take control of your personal money path. This special tool helps you review your current situation. Using this tool you can decide if there are changes that you need to make to keep you on your money path. The traffic lights below will help you identify areas that might need some attention. After viewing your results, you will be able to create your own personalized money plan.

Budgeting
Stop! Budgeting needs immediate attention. You can't follow the path to a healthy financial future without changing your behaviors here. Take some time, make a plan, and get back on track!

Here are a few places to look for some help:

Tips: The 10-minute guide to budgeting
Video: Getting started with budgeting
Tool: Beshive helps you budget

You currently have not set up a budget for your finances
A spending plan can help you spend on your priorities and prioritize your spending.

You currently do not stick to your budget
Try tracking your spending for the next couple of weeks to get a feel for where your money is actually going. Then recreate a budget to better reflect your goals in light of your circumstances.
Online Financial Planning Modules

- **Visual Analytic Modules (“See It”)**
  - Visual display of current position from self-assessment
    - Example: “Here is what you said you save each month today. After 2 years…”
  - Interactive components encourage changing position to see difference
    - Example: “If you save an extra $10 per month, see how much more you will have…”

- **Actionable Steps (“Set It”)**
  - Individualized, specific steps in each of the 5 categories to select from
    - Example: “Open a savings account”, or “Set up automatic deposit into savings each month”
  - Brief description of “why it matters” and “time to complete”

- **Individualized Action Plan (“Do It”)**
  - Set implementation intentions for each action step selected
    - When (target dates) and how
  - Download, email, print and post action plan
    - Track progress

Overview | Interventions | Results | Discussion
Borrow Money Wisely

This section of MyMoneyPath is about the money that you borrow, whether it is long-term debt like a mortgage or short-term debt like a credit card. Your new mortgage payment is included in your Debt Percentage.

We’ll review:

- Do you have too much debt?
- Setting a goal to pay off your debt
- Creating an action plan to meet your goal

Your Current Snapshot

![Chart showing debt percentage categories: High (37% or more), Fair (24% - 36%), OK (23% or less), and Your Debt (36%)]
Create an Action Plan to Meet Your Goal

Now that you’ve set a goal, let’s make a plan of the things you need to do. Drag the Possible Action Steps that will help you on your path to Your Action Plan; our recommendations are highlighted in green, please select at least two.

**Possible Action Steps**

- Review the interest rates on your credit cards
- Set up automatic payments to pay your monthly credit card bill(s)
- Check your credit report for free
- Plan to pay extra on your credit cards each month
- Make an extra payment on your credit card(s) with your tax return or income bonus
- Make a plan to payoff your highest interest rate credit card or loan
- Track your debt thermometer

**Your Action Plan**

[Begin Savings Steps]
Telephone Based Coaching

- Ongoing support towards financial goals provided by certified financial coach/counselor
  - Quarterly scheduled follow up during first 12 months post purchase
  - Available “on call” to homebuyer anytime within the first 12 months after purchase

- Rationales for coaching
  - External monitoring of behavior increases self-control
  - Reminders important to achieve future goals
### Borrower Characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Score</td>
<td>674.53</td>
</tr>
<tr>
<td>Monthly Income ($)</td>
<td>$3,058</td>
</tr>
<tr>
<td>Black (%)</td>
<td>17.2%</td>
</tr>
<tr>
<td>Male (%)</td>
<td>44.8%</td>
</tr>
<tr>
<td>Household Size</td>
<td>2.25</td>
</tr>
<tr>
<td>Age of Purchaser</td>
<td>32.57</td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>39.1%</td>
</tr>
<tr>
<td>Housing Ratio</td>
<td>24.1%</td>
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<tr>
<td>Previous Rent Payment</td>
<td>$537</td>
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</tbody>
</table>

### Mortgage Characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Mortgage Payment (PITI)</td>
<td>$778</td>
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<tr>
<td>First Mortgage LTV</td>
<td>95.6%</td>
</tr>
<tr>
<td>Total LTV</td>
<td>97.5%</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>4.9%</td>
</tr>
<tr>
<td>Property Value at Origination</td>
<td>$97,105</td>
</tr>
</tbody>
</table>

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**Average Homebuyer Characteristics**

N= 203

June 2011-August 1, 2011

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- **Overview**
- **Interventions**
- **Results**
- **Discussion**
Financial Health Indicators

Budgeting

- Paycheck Direct Deposit: 91.3%
- Written Spending Plan: 83.3%
- Stick to Spending Plan: 73.9%
- Not Often Short of Money: 94.6%

Overview | Interventions | Results | Discussion
Savings

Financial Health Indicators

Average Balance
Checking: $1,765
Savings: $1,993

<table>
<thead>
<tr>
<th>Have Checking Account</th>
<th>Have Savings Account</th>
<th>Saving Any Money</th>
<th>Automatic Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>97.5%</td>
<td>69.0%</td>
<td>86.3%</td>
<td>38.3%</td>
</tr>
</tbody>
</table>
### Financial Health Indicators

**Average Balance**
- Car: $12,059
- Student Loans: $23,946
- Credit Card: $3,047
- Personal Loan: $3,362
- Other Debt: $4,960

**Total Non-Mortgage Debt: $20,704**

### Borrowing

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Payment</td>
<td>56.7%</td>
</tr>
<tr>
<td>Student Debt</td>
<td>47.3%</td>
</tr>
<tr>
<td>Credit Card Payment</td>
<td>70.9%</td>
</tr>
<tr>
<td>Personal Loan Payment</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

### Results

- Overview
- Interventions
- Results
- Discussion
Retirement

Financial Health Indicators

- Have a Retirement Account: 41.9%
- Saving for Retirement: 50.7%
- Automatic Retirement Savings: 56.7%
- Retirement Plan: 41.4%
- Understand Social Security: 45.8%

Overview | Interventions | Results | Discussion
Confidence with Finances

Day to Day Finances
- 83% Very Confident
- 16% Reasonably Confident
- 0% Not Confident
- 0% Not at all Confident

Making Mortgage Payment
- 92% Very Confident
- 8% Reasonably Confident
- 0% Not Confident
- 0% Not at all Confident

Paying off Debt
- 76% Very Confident
- 20% Reasonably Confident
- 2% Not Confident
- 2% Not at all Confident

Planning for Future Expenses
- 47% Very Confident
- 42% Reasonably Confident
- 10% Not Confident
- 1% Not at all Confident

Overview  Interventions  Results  Discussion
Questions & Comments?

Thank You!
Discussant

Chris Herbert, Research Director, Joint Center for Housing Studies
Comments on “Financial Planning for First Time Homebuyers”

Chris Herbert
September 13, 2011
High Interest in Developing Effective Methods for Supporting Homeowners

- Both private and public sectors are looking to new means of preparing borrowers for homeownership as means of reducing risks

- Support needed at different stages:
  - Education and counseling to prepare for homeownership decision
  - Pre-closing counseling
  - Post-purchase support and monitoring
  - Delinquency counseling

- Best approaches at each stage still a matter of debate
Study’s Focus on Fostering Behavioral Change is Key

- Traditional counseling and education largely aimed at providing clients with information
- While some education clearly needed, in many cases root issue is habits and not knowledge
- Focus groups with similar population find many clients knew what they needed to do to save, but lacked motivation and support
- For these clients, counseling was not perceived as needed – and at worse were turned off by notion of being told what to do
- Self-directed goals coupled with coaching is a promising model
Study’s Innovation in Delivery Methods is Also Important

- There are two critical barriers to delivering education, counseling or coaching:
  - Availability of services at time and place convenient to large numbers of potential clients
  - High cost of individualized assistance
- Both challenges addressed by key study components: self-directed, web-based system and use of telephone counseling as supplement to self-directed efforts
- Lessons learned may be applied to variety of other forms of education, counseling and coaching
Discussant

Geoffrey Cooper, Director, Single Family Housing at WHEDA
Q&A
October Webinar

Tuesday, October 11th
1pm – 2pm CDT / 2pm – 3pm EDT

Coming Up with Cash in a Pinch: Emergency Savings and its Alternatives

J. Michael Collins, Faculty Director, UW-Madison Center for Financial Security

For more information on the 2011 CFS Webinar Series: http://cfs.wisc.edu