



Principles for Increased Financial Sustainability for Counseling Services

HUD Intermediary, State HFA and MSO
Conference

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Session Speakers

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Session Goals

- Define sustainability
- Explore cost, value and fees
- Share principles, best practices and examples for increased sustainability

First-Time Homebuyers

- There are roughly 2 million first-time homebuyers annually in the nation (*Source: NAR*)
- The nonprofit counseling industry is touching about 10-20% of them according HUD 9902 stats
- We can grow this market dramatically, but we need sustainable business models that work!

Challenges Facing Nonprofits

- An uneven economy across the nation – recovery varies greatly and wages are stagnant
- Cutbacks in funding from private/public partners
- Increasing competition from other nonprofits
- Counseling and DPA are under-valued by partners and customers
- Strong customer demand is stretching staff and services
- Reporting burdens from funders are growing

Implications of Challenges

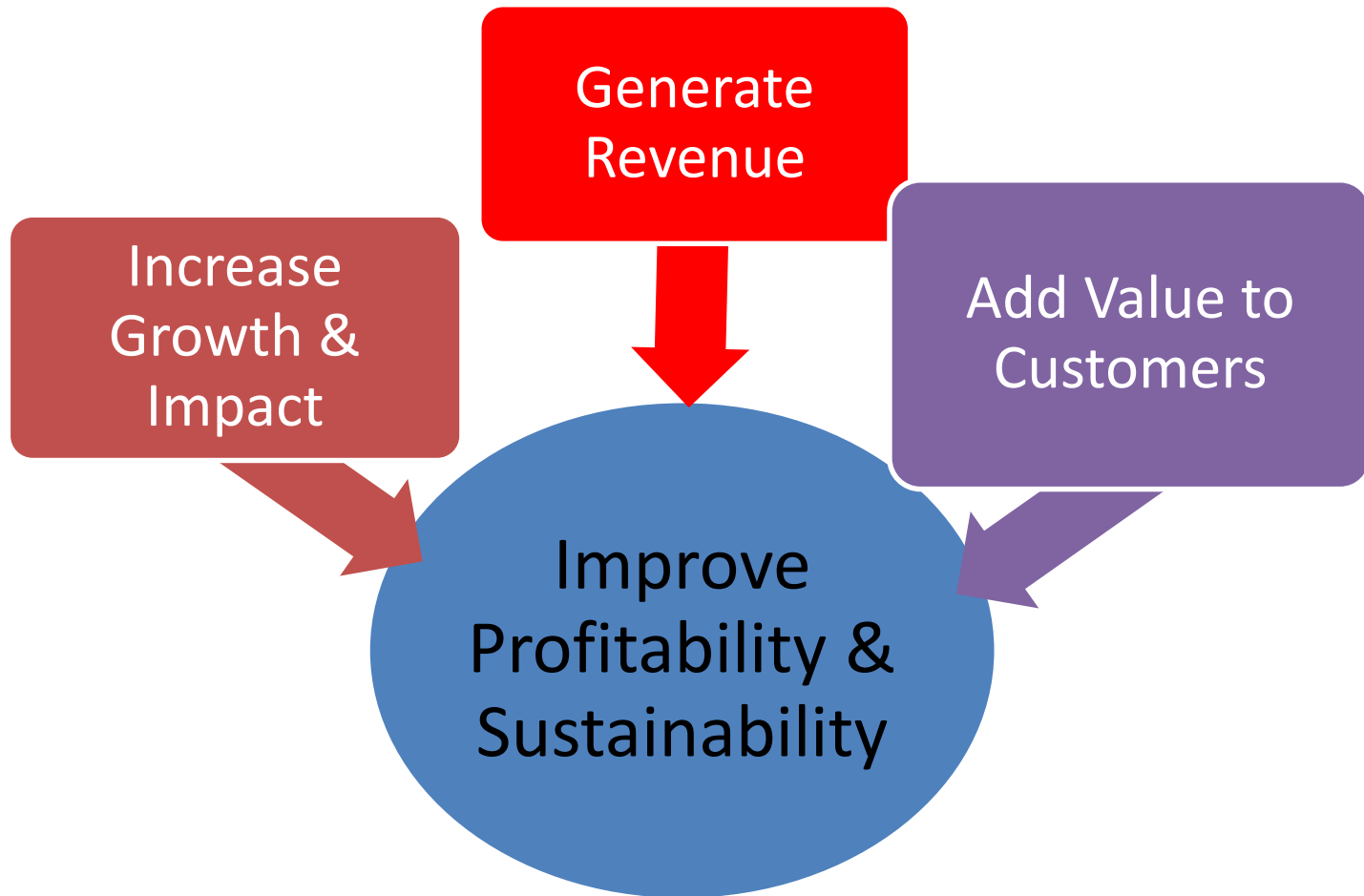
- An environment with more limited resources and increased competition
- Funders are demanding broader coverage, increased efficiency and greater impact
- Customers are demanding greater convenience and more value
- “High-touch services” without earned income are increasingly unsustainable
- Technology is transforming consumers’ lives and requiring changing business models in virtually all sectors (e.g. newspapers)

Sustainability: A Definition

- **Sustainable Operation** - Revenues from services provided to customers cover direct expenses related to the service as well as management and overhead expenses
 - A financially sustainable nonprofit organization generates surplus cash

Sustainability Goal

Designing housing counseling services that:



Key Concepts for Sustainability

- Know the costs of your services
- Have a clear value proposition with partners and customers
- Increase your earned income
- Don't assume increasing volume will lead to profitability or sustainability
- Bring your key stakeholders along

Understanding Costs, Value and Fees

Term	Definition	Example
Costs	The actual cost of the service delivered, including all direct and indirect costs.	The typical cost of delivering high-quality homebuyer education and counseling can range from \$500-\$1,200 per household.
Value	The value and benefits of the service as perceived by the customer.	The perceived value by consumers of homebuyer education and counseling is mixed, unless it is required to obtain favorable financing.
Fees	The fee you can charge customers or partners for the service.	Increasingly, nonprofits are charging consumers \$99 for HBE and some agencies also obtain a fee of \$300-\$500 per customer from lender partners for this service.

Creating a Strong Value Proposition

- Who is your target customer?
- What is the job to be done?
 - Needs to solve an important problem or fulfill an important need
- What is the product or service that satisfies the problem or fulfills the need?
- Can you deliver this service cost effectively?
- Will fees cover the cost of the services?

Counseling Has Costs

- Marketing and partnership-building work
- Intake and scheduling consumers
- Classroom education – space, materials, food
- Labor for educators and counselors

Several studies have documented the cost to be between \$500-\$1,500 for every consumer served!

Counseling Has Value

- Numerous studies have documented that homebuyer education and counseling have value and impact:
 - Creates more knowledgeable homebuyers
 - Produces more efficient transactions
 - Prepares potential buyers for long-term success as homeowners
 - Reduces loan delinquencies and defaults

So, doesn't it make sense that the consumers who benefit should pay at least a portion of the cost?

Sustainability Principles

- Thorough business planning is critical for any new business strategy
- Geographic expansion is often important to achieve broader coverage and economies of scale
- Wise investments in technology can lead to increased efficiencies and cost savings
- Implementing a new business model can far longer and can be much costlier than expected

Sustainability Principles (cont)

- Understanding and monitoring the cost of services is critical to understand the accurate costs of achieving desired results (most nonprofits under-estimate costs)
- The cost of services is determined both by the volume and intensity of services
- Reducing cost of services is possible by reducing intensity or efficiency of services not necessarily by increasing volume

Sustainability Principles (cont)

- Creating a strong Value Proposition with consumers and partners is key.
- Moving to an “earned income business model” can result in disagreements – with both boards and staff members
- Even a successful business model can create unintended results and may need regular adjustments over time

Moving toward Sustainability

Old Way

Identify a community problem and launch a new program without knowing its costs

New Way

Know the costs of services. Design cost-effective services that can be self-sustaining

Moving toward Sustainability

Old Way

Programs driven by
government funding

New Way

Programs driven by what
makes sense to achieve
outcomes in your service
area

Moving toward Sustainability

Old Way

Success is doing more
than last year

New Way

Success is measured
against industry
benchmarks and impacts
in your service area

Moving toward Sustainability

Old Way

Serve only the “hardest to serve” customers

New Way

Serve a wider range of customers to help achieve efficiencies of scale and cross-subsidies

Moving toward Sustainability

Old Way

Deliver “high-touch” individualized services to all customers

New Way

Triage customers and match services to their needs

Moving toward Sustainability

Old Way

Other nonprofits seen as competitors for scarce resources for duplicative services

New Way

Other nonprofits seen as strategic partners with complementary services

Moving toward Sustainability

Old Way

Invest in technology as you can afford

New Way

Embrace technology if it can reduce costs, increase impact or improve services