

**Fostering Low-Income
Homeownership: A Longitudinal
Randomized Experiment on
Individual Development Accounts**

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“The test of our progress is not whether we add more to the abundance of those who have much: it is whether we provide enough for those who have too little.”

Franklin D. Roosevelt

Wealth Ownership in the US

U.S. Population	Wealth Ownership
Bottom 40%	< 1%
Bottom 60%	< 5%
Top 20%	84%

(Wolff, 2004)

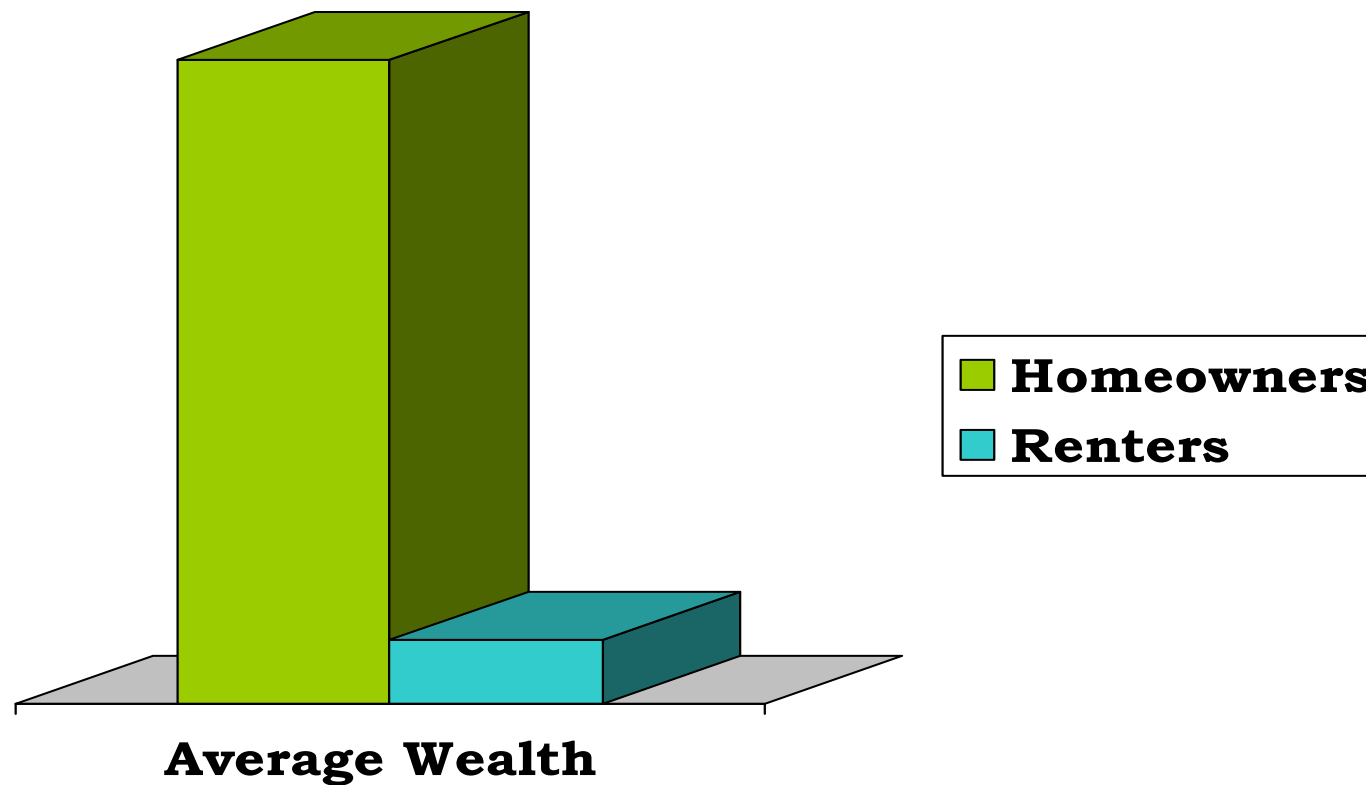
Millions of people in the United States have few or no assets

Homeownership: Economic effects

- A home is a major asset—the largest investment most people will make over their lifetime.
- Homeownership is a significant financial milestone.
- Homeownership represents 60% of the total wealth among the American middle class (Wolff, 2002).

Homeownership: Economic effects

“The average wealth of homeownership households is ten times that of renter households...” (Rohe & Watson, 2007)



Homeownership: Social Effects

- Homeownership is associated with multiple positive effects:

Personal well-being

Family well-being

School performance

Civic engagement

Improved health status

Increased labor engagement

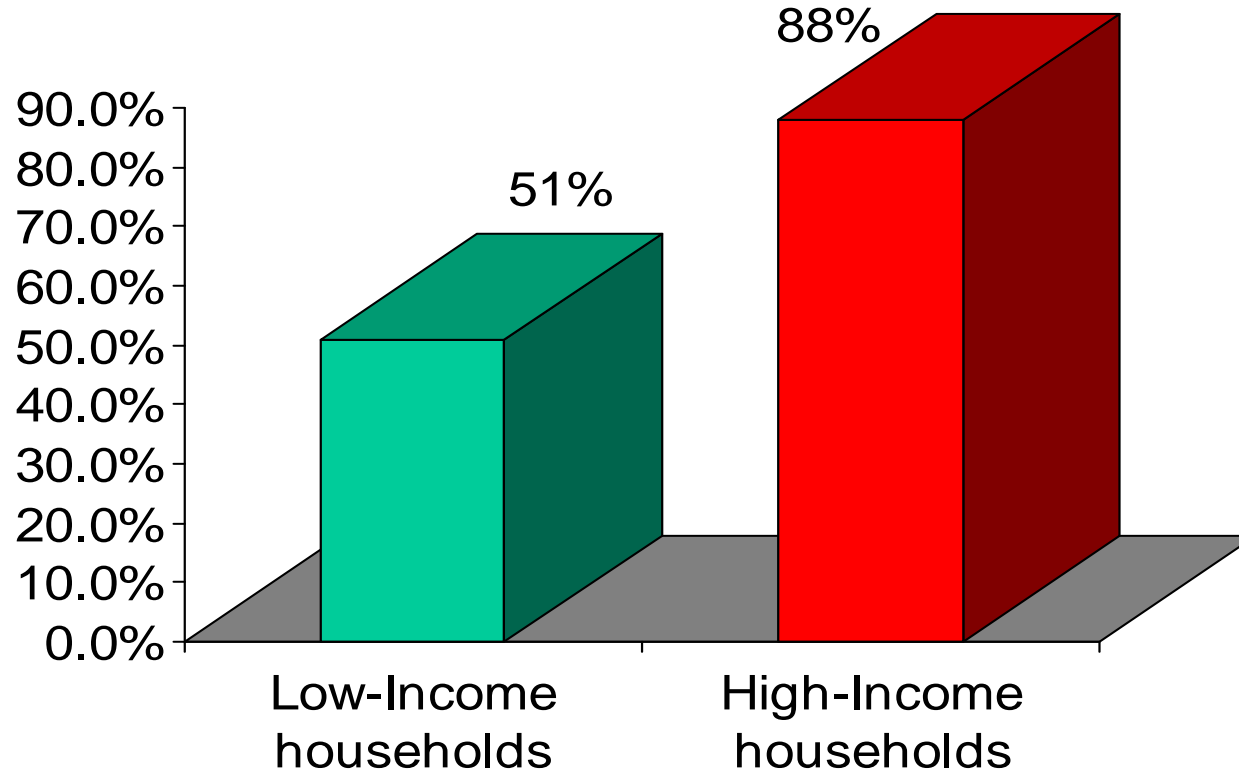
(Herbert & Belsky, 2006; Robert & House, 1996; Rossi & Weber, 1996; Scanlon & Page-Adams 2001; Van Zandt & Rohe, 2006).

Barriers to Homeownership

- Financial obstacles (i.e., no downpayment, bad credit, or too much debt)
- Lack of information
- Discrimination toward low-income, minority home buyers
- Predatory lending and subsequent bad loans

(Barakova et al., 2003; Di & Liu, 2004; Fellowes, 2006; Ratner, 1996; Haurin & Morrow-Jones, 2006; Collins, 2004; King, Li, Davis, & Ernst, 2005)

Homeownership Gap Between Lower-Income and High-Income Households



(Herbert et al., 2005)

Towards Inclusive Policy

- One program that helps low-income people save for a home is the Individual Development Account (Sherraden, 1991).

Benefits of Saving for Home Purchase with an Individual Development Account

- Provides matched funds as incentive for saving; used toward downpayment, closing costs, or related costs
- Requires participation in financial education that include credit counseling and pre-purchase advising and general money management classes
- Includes working one-on-one with a case manager
- Assists potential homeowners with shopping for safest loan that meets their needs

Main Research Questions

- I. Does IDA program participation affect clearing old debts as preparation for applying for a home loan?

- II. Does IDA program participation affect rates of homeownership among those who enter the program as renters?

Design Overview

American Dream Demonstration (ADD)

- First major demonstration of IDAs
- From 1997 to 2003, research through 2009
- Involved 14 IDA programs across the country
- Organized by the Corp. for Enterprise Development
- Research by Center for Social Development (CSD)
- Funded by 12 foundations

Multi-Method Research Design (ADD)

- Program implementation case studies ($N=14$)
- Survey of program characteristics ($N=14$)
- Program cost studies ($N=1$)
- Participant survey on IDA behavior and outcomes ($N=298$)
- Monitoring of saving patterns of all participants ($N=2,364$)
- Experiment with random assignment ($N=1,103$)
- In-depth interviews, subsample of experiment ($N=84$)

The ADD Experiment

- Longitudinal, randomized controlled experiment conducted in Tulsa, OK from 1998–2003, by the Community Action Project of Tulsa County (CAPTC)
- Study eligibility requirement:
 - Individuals had to be employed, but
 - Earning less than 150% of federal poverty level at entry.
- Evaluation conducted and led by Abt Associates
- CSD provide technical direction

The ADD Experiment

- *Treatment* – allowed to participate in the IDA program and received matched saving accounts, financial education, and case management
- *Control* – abstained from participating in any CAPTC matched savings or homeownership program during the experiment, but could receive homeownership counseling from other providers

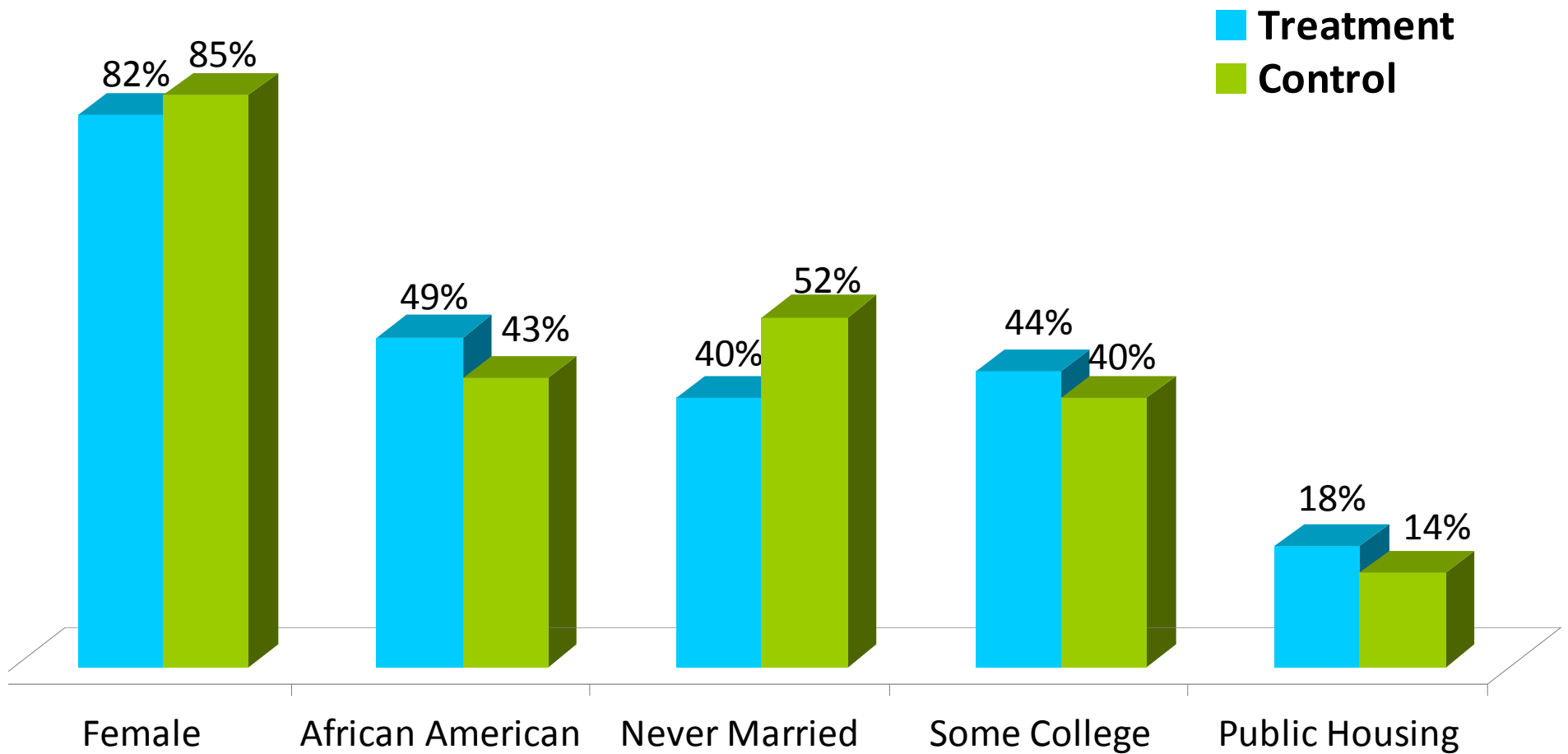
The ADD Experiment

- Asset goals – home purchase, home improvement or repair, business start-up or expansion, postsecondary education or training, retirement accounts
- Match rate of 2:1 for home purchase and 1:1 for all other uses
- Maximum matched deposit: \$750 per year for 3 years; Participants could accumulate up to \$6,750 for home purchase and \$4,500 for other qualified uses
- Minimum deposit: \$10/month for 9 months each year

Sample Size & Response Rate by Wave

Interview	Months	Treatment Group	Control Group	Total	Response Rate
Baseline (Wave 1)	Oct.1998 – Dec. 1999	<i>N</i> =537	<i>N</i> =566	<i>N</i> =1,103	N/A
18-month follow-up (Wave 2)	May 2000- Aug. 2001	<i>N</i> =462	<i>N</i> =471	<i>N</i> =933	84.6%
48-month follow-up (Wave 3)	Jan. 2003 – Sept. 2003	<i>N</i> =412	<i>N</i> =428	<i>N</i> =840	76.2%

Baseline Characteristics of the Analytic Sample



Sample Characteristics (cont.)

	Treatment M (SD)	Control M (SD)
Age (in years)	34.6 (10.1)	35.0 (9.5)
# Adults (other than respondent)	0.4 (0.7)	0.4 (0.7)
# Children	1.6 (1.3)	1.9 (1.4)*
Monthly Household Income	\$1,550 (1,141)	\$1,341 (672)*
Net Worth	-\$4,149 (13,664)	-\$4,170 (14,796)

* $p < .05$

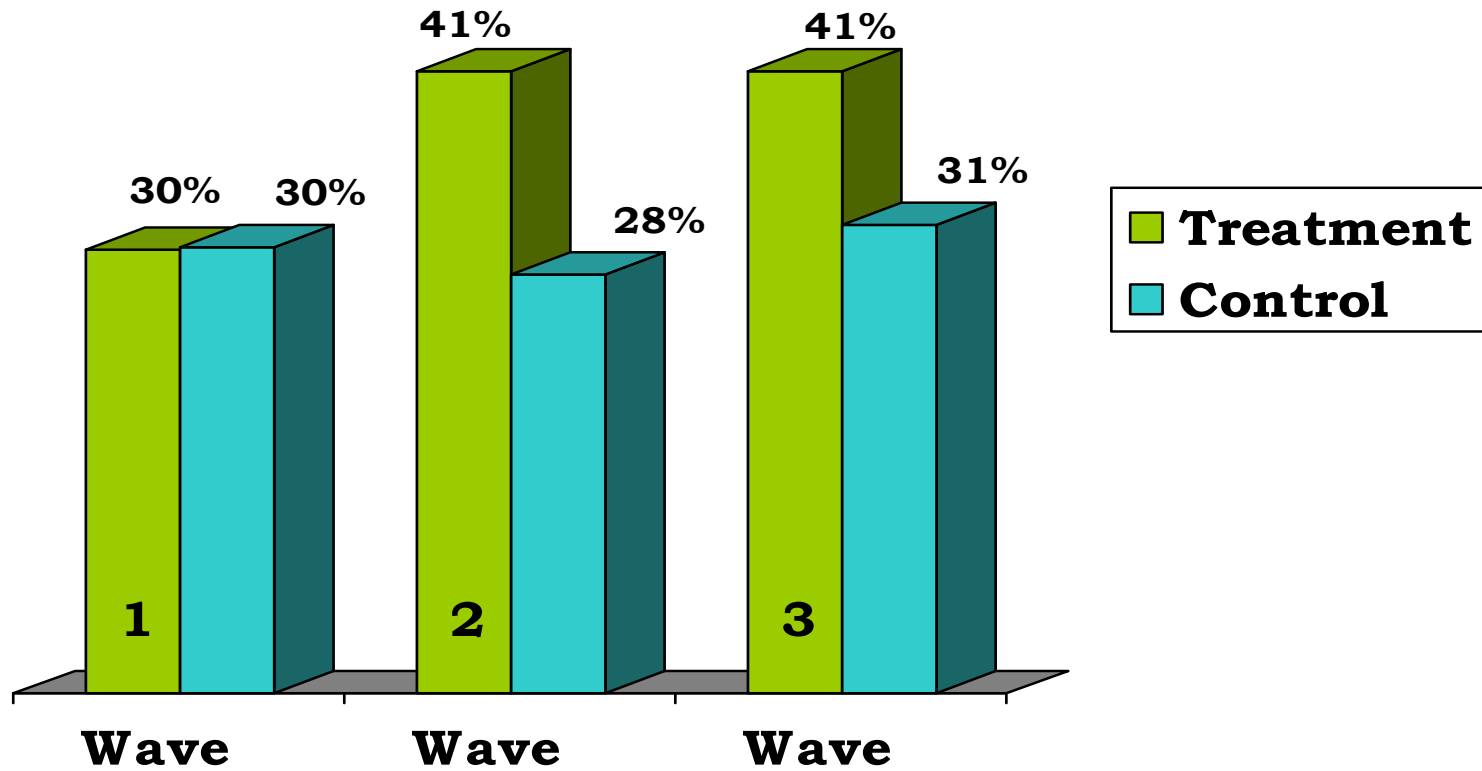
Measures

- Homeownership status (at W2 & W3) **Dependent Variables**
 - Clearing-debt (at W2 & W3)

- IDA program participation **Independent Variable**

- Demographic variables
- Household composition **Control Variables**
- Financial characteristics

Results: Cleared Old Debts



Results: Homeownership Rates

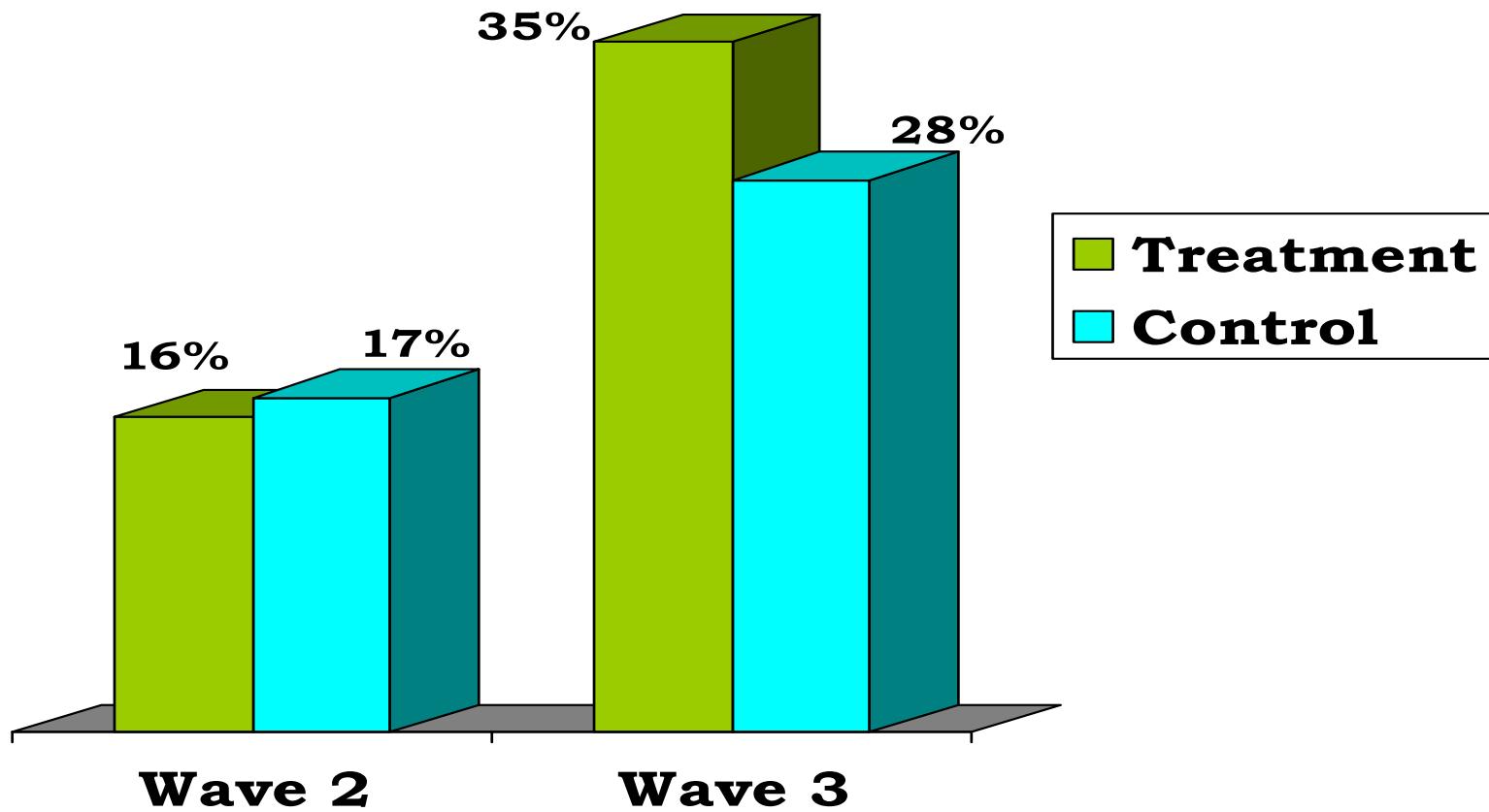


Table 1: Effects of IDAs on Clearing Debt

Table 1: Effects of IDAs on Clearing Debt at Wave 2 and Wave 3

Variables	Cleared Debt at Wave 2			Cleared Debt at Wave 3		
	B	S.E.	O.R.	B	S.E.	O.R.
Intercept	-1.806	0.955		1.410	1.004	
Treatment	0.667**	0.234	1.949	-0.004	0.267	0.996
Female	-0.340	0.365	0.712	0.102	0.436	1.107
Age	-0.005	0.013	0.995	-0.034*	0.015	0.966
Race						
Caucasian						
African American	0.412	0.271	1.510	0.476	0.317	1.610
Other race	0.296	0.407	1.344	0.550	0.488	1.733
Marital Status						
(Married)						
Never married single	0.121	0.357	1.128	-1.102*	0.434	0.332
Separated/Widowed/Divorced	0.019	0.375	1.019	-0.935*	0.442	0.393

Table 1: Effects of IDAs on Clearing Debt

Table 1: Effects of IDAs on Clearing Debt at Wave 2 and Wave 3

Variables	Cleared Debt at Wave 2			Cleared Debt at Wave 3		
	B	S.E.	O.R.	B	S.E.	O.R.
Education						
(Less than High School Grad.)						
Completed High School	0.230	0.713	1.258	-1.211	0.629	0.298
Attended Some College	0.669	0.695	1.952	-0.958	0.602	0.384
Graduated from College	1.002	0.713	2.724	-0.881	0.645	0.414
Household Composition						
Number of Adults	-0.025	0.197	0.975	-0.456	0.236	0.634
Number of Children	-0.055	0.094	0.946	-0.145	0.112	0.865
Public Housing	-0.487	0.335	0.615	-0.519	0.363	0.595
Income		0.184	1.197	0.541*	0.226	1.717
Net worth	0.003	0.008	1.003	-0.005	0.009	0.995
Clearing debt at Wave 1	1.242***	0.247	3.462	---	---	---
Clearing debt at Wave 2	---	---	---	1.237***	0.280	3.444
N		389			307	
-2 Log L		455.282			351.049	
LR test (df)		(16)***			52.916 (16)***	

Table 2: Effects of IDAs on Homeownership

Table 2: Effects of IDAs on homeownership at Wave 2 and Wave 3

Variables	Homeownership at Wave 2			Homeownership at Wave 3		
	B	S.E.	O.R.	B	S.E.	O.R.
Intercept	-0.871	1.059		-1.169	1.048	
Treatment	-0.221	0.260	0.802	0.558*	0.256	1.746
Female	-0.472	0.348	0.624	-0.377	0.361	0.686
Age	-0.031*	0.015	0.969	-0.003	0.013	0.997
Race						
Caucasian						
African American	-0.314	0.297	0.730	-0.735*	0.292	0.479
Other race	-0.008	0.447	0.992	0.159	0.404	1.172
Marital Status						
(Married)						
Never married single	-0.733	0.377	0.481	-0.545	0.359	0.580
Separated/Widowed/Divorced	0.129	0.375	1.138	-1.154**	0.397	0.316

Table 2: Effects of IDAs on Homeownership

Table 2: Effects of IDAs on homeownership at Wave 2 and Wave 3

Variables	Homeownership at Wave 2			Homeownership at Wave 3		
	B	S.E.	O.R.	B	S.E.	O.R.
Education						
(Less than High School Grad.)						
Completed High School	0.517	0.818	1.678	1.093	0.816	2.983
Attended Some College	0.272	0.813	1.312	0.637	0.810	1.891
Graduated from College	0.968	0.818	2.631	1.471	0.821	4.354
Household Composition						
Number of Adults	0.197	0.195	1.218	-0.524*	0.218	0.592
Number of Children	0.011	0.105	1.011	0.043	0.103	1.044
Public Housing	-0.349	0.421	0.706	-1.115**	0.422	0.328
Income	0.475**	0.179	1.608	0.182	0.189	1.199
Net worth	0.023*	0.010	1.023	0.024*	0.010	1.024
Homeownership at Wave 2	---	---	---	3.320***	0.392	27.656
N	475			475		
-2 Log L	396.544			420.299		
LR test (df)	49.760 (15)***			182.525 (16)***		

* $<.05$, ** $<.01$, *** $<.001$

Limitations

- Participants in IDA programs are program-selected and self-selected.
- Engagement in clearing debt is self-reported; Changes in credit scores were not measured.
- Match rate for savings provided greater incentives for treatment participants to purchase a home during the 4-year study period.

Summary and Concluding Thoughts

- IDAs appear to be effective in helping low-income families save for a home.
- By 18 months, IDA program participation led to increased engagement in clearing old debt.
- Among those who were renters at baseline, IDA program participation led to increased rates of homeownership by 48 months.

Future Research – ADD–Wave 4

- To date, IDA research has focused solely on short-term measures such as participants' immediate performance levels and outcomes.
- Assessment of the long-term (10 year) impact of IDA programs
- ADD–Wave 4: Follow-up interviews with both IDA program and control group participants nearly 10 years after random assignment (i.e., 5 years post study completion)

Future Research – ADD–Wave 4

- Research Team includes UNC, Brookings Institution, CSD, and RTI international
- David Greenberg will conduct a cost-benefit analysis using the cost data from the first three waves of ADD research (Schreiner, 2004, 2005)
- Data collection begins this summer using home interviews as primary method of data collection.

Future Research – ADD–Wave 4

- What are the long-term outcomes following IDA program completion?
- Have program graduates been successful in:
 - Maintaining their mortgage payments and remaining in their homes?
 - Sustaining or expanding their microenterprise?
 - Completing their education/ job training and finding better employment?
 - Continuing to contribute to their retirement account?

Future Research – ADD–Wave 4

- Key questions related to homeownership:
 - Does it affect wealth among low-income households?
 - Does it affect overall well-being of IDA participant families?
 - Are IDA participants who become homeowners able to remain homeowners over time?
 - Do IDAs rush people—who are not ready—to become homeowners?

Future Research – ADD–Wave 4

- Are IDA programs cost-effective?
 - Will be determined through a rigorous, cost-benefit analysis using long-term data
- The cost-benefit analysis will estimate the value of benefits that appear likely to persist the beyond the Wave 4 follow-up.

Acknowledgments and Funding Sources

- Center for Social Development, Washington University in St. Louis
- Corporation for Enterprise Development
- John D. and Catherine T. MacArthur Foundation
- Ford Foundation
- Charles Stewart Mott Foundation
- FB Heron Foundation
- Annie E. Casey Foundation
- National Poverty Center

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