Asset Building Program

Homeownership and Individual Development Accounts

An Assessment of Recent Research

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Individual Development Accounts are designed to support savings for the purchase of specific assets, such as buying a home, pursuing post-secondary education, or capitalizing a small business, by matching the deposits of program participants. The concept of matched savings has been promoted as a means to broaden asset ownership among populations missed by current policy. Recently, a study was released evaluating the ten-year impacts of a specific Individual Development Accounts program in Tulsa, Oklahoma focused on increasing homeownership. This paper provides commentary on the findings of this new research, raises questions about the state of homeownership as a means of achieving economic security, and critiques the existing policy tools for supporting low-income families to climb up the economic ladder.

In the real world, problems are usually more abundant than the resources to address them. In a more ideal world, possible solutions could be assessed for their effectiveness so that limited resources could be leveraged to their fullest potential. This, of course, is easier said than done. We know the real world is complicated, but even the ideal world can be messy. It is hard to design meaningful experiments and implement interventions faithfully, and the opportunity to observe subsequent impacts is often limited to particular moments in time. These are perennial challenges for social science. Despite these limitations, there is much to be learned from striving for the elusive ideal. A randomized experimental design is the gold standard for testing impacts because it can distinguish a "treatment" group that receives the intervention from a "control" group that does not. In the real world, this may be as close as we can get to the ideal. This approach was used to assess the impacts of a specific Individual Development Account (IDA) program in Tulsa, Oklahoma.[1]

IDAs are matched savings accounts targeted to low-income persons designed to promote savings for the purchase of assets, such as buying a home, pursing post-secondary education, or starting a small business. The concept of designing targeted matched savings programs has been promoted as a means to broaden asset ownership among populations that are often missed by existing policy tools. Through a combination of public and private funding, over 500 IDA project sites have supported approximately 50,000

[1] Grinstein-Weis, Sherraden, Gale, Rohe, Schreiner, and Key (2011).

accounts during the last fifteen years.[2] Most projects are run by local non-profit agencies and are modest in size, averaging over 110 accounts per project. There has been substantial interest in the IDA experience, which has been observed and assessed by a series of research efforts.[3] There have been studies examining IDA program participation and savings outcomes, comparing IDA participants to non-IDA participants, and qualitative assessments of program participation. Even though this work is not able to account for biases of self-selection, the findings are noteworthy and have generated insights relevant to policymakers.

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However, experimental research testing the impacts of IDAs is limited.[4] The Tulsa program was conducted as a randomized controlled experiment and thus represents an opportunity to comparatively examine program impacts. This particular IDA program focused explicitly on increasing homeownership among participants. Homeownership is often targeted as a specific objective for these programs because it is linked to beneficial economic and social outcomes, such as increased net worth, educational outcomes, and access to other amenities. This particular intervention was conducted between 1998 and 2003, and several follow-up studies were performed that examined the program's impact on homeownership rates. After five years, the program was found to have a positive and statistically significant impact on homeownership rates.[5] A team of researchers went back again after ten years to examine the long-term impacts. The recent release of this study provides an opportunity to take stock of the intervention and to see what we might learn.[6]

The authors of this study, Michal Grinstein-Weiss, Michael Sherraden, William Gale, William Rohe, Mark Schreiner, and Clinton Key, represent institutions (Center for Social Development at Washington University in St. Louis, University of North Carolina, and the Brookings Institution) committed to thorough research, careful analysis, and presenting results fairly and transparently. The quality of the research team is relevant because these interventions are complicated to run, and results can be difficult to interpret and assess even when the research design is rigorous. Given this complexity and the nature of social science, it is important that the findings of this work be considered cautiously and in context.

Design and Findings

The study examined how participation in a specific IDA program impacted homeownership rates over an extended period of time. Eligible applicants were employed and had incomes below 150 percent of the poverty level. Those expressing interest in the program were randomly assigned to a treatment group that would have their savings matched or a control group that would not. Those in the treatment group could open an IDA account and receive matched contributions on deposits up to $750 a year for three years. If they used the money for a home purchase within the next year, they would have their contributions matched at a 2 to 1 level; otherwise the match rate would be 1 to 1 as long as withdrawals were made for qualified purposes (i.e., home repair, small-business investment, post-secondary education, or retirement savings). Treatment group members also received access to financial education. Those in the control group were not supposed to open an IDA account with the sponsoring agency, The Community Action Program of Tulsa County (CAPTC), but were

[2] Department of Health and Human Services (2010).
[3] Mills et al. (2004); Rademacher et al. (2010); Schreiner et al. (2002); Schreiner and Sherraden (2007); and Sherraden, Margaret, and Moore McBride (2010).
[4] In *learn$ave*, a randomized IDA experiment in Canada, program participation was found to have positive impacts on post-secondary education and small-business start-up. Leckie et al. (2010).

[5] Grinstein-Weiss et al. (2008); Mills et al.(2008).
[6] Grinstein-Weis, Sherraden, Gale, Rohe, Schreiner, and Key (2011).

allowed to use other services, including counseling and referrals to homeownership financial assistance programs. After the four-year program period ended, members of both groups were released from these restrictions.

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The study generated some remarkable findings:

- 90 percent of treatment group members opened an IDA (a high take-up rate compared to other interventions, such as the Earned Income Tax Credit and other public assistance programs);
- Contributions by participants averaged $1,800 (not including matched contributions) over the program period;
- Homeownership rates increased substantially for the treatment group, rising from 21.2 percent to 52.2 percent; and
- Homeownership rates for the control group increased as well but at a slower rate, eventually catching up to the treatment group, starting at 25.8 percent and rising to 51.6 percent after ten years.

Evaluating Impact

Over the long run, both groups did extremely well with respect to increasing their homeownership rates. It seems clear that the program was attractive to participants and helped them become homeowners. Yet after ten years, there was no significant difference among homeownership rates between the treatment and control groups. This is a relevant result because we want to know if this intervention is a basis for policy on a larger scale. At issue is whether this intervention is worth it for increasing homeownership rates in terms of effort and resources given alternatives and resource constraints.

Since both the treatment and control groups ultimately had high rates of homeownership, this suggests that other factors were in play outside the IDA intervention that helped the control group increase their purchase of homes over time. Evaluating the impact of the intervention requires distinguishing which outcomes are attributable to the treatment versus external factors. Several features of the overall context, including treatment and external factors, should be considered as potentially influencing the study's results.

Low housing prices. The Tulsa housing market was characterized in this period by relatively low housing prices compared to other markets. Lower prices would lower barriers to home purchase and minimize the downpayment requirements of buyers. Downpayments would have presumably still played a role, but less so when compared to other markets with higher prices.

Widely available credit. The growing prevalence of credit during these years, even among lower income households, was a remarkable development. Mortgage products were being offered and designed to facilitate the entry of this market segment as home buyers. The period after the treatment ended was a time when housing finance opportunities were expanding, perhaps in unprecedented ways. This would have further minimized downpayments as an obstacle.

Remarkable support services. All families in the study were impacted by an array of services that they received from the local sponsoring agency, or intermediary. The timing of service delivery may have varied, but eventually even the control group would have benefited from support services. In some cases, these services included being able to participate in an IDA program. Community service and development agencies are not all created equal and some are much more capable than others. By all accounts, the CAPTC is a high performing organization that is able to offer an array of services that benefit their clients. The control group would have been positively impacted by their experiences with this agency as well.

Given subsequent changes in the housing and credit markets in response to the bursting of the housing bubble and the Great Recession, it would be harder for a similar control group to replicate the experience observed in this study. In other words, if we repeated this experiment now, the control group may be unlikely to catch up.

Considering these features helps place the study's findings in context. For example, the market conditions at the time of the intervention leveled the playing field for the control group by making homeownership more accessible through lower housing prices, downpayment requirements, and availability of credit. Given subsequent changes in the housing and credit markets in response to the bursting of the housing bubble and the Great Recession, it would be harder for a similar control group to replicate the experience observed in this study. In other words, if we repeated this experiment now, the control group may be unlikely to catch up.

Although the two groups were distinguished by their access to the IDA intervention, both were able to access support services delivered through a local intermediary. Emerging research appears to demonstrate that this can make a big difference in long-term outcomes. Families that bought homes through IDA or other assistance programs were better positioned to weather the economic downturn as reflected by lower foreclosure and default rates than similar groups in the general population.[7] A number of evaluations seem to make this a robust finding that extends to families who received support from a range of housing programs offered by local intermediaries, including housing, counseling, and education programs.[8] This could be because families accessing these programs received better mortgage products than their counterparts, who may have had to navigate a marketplace with inappropriate and expensive mortgage products. It does seem evident that families that became homeowners through an experience mediated by a local intermediary have fared much better. This is certainly a finding with major policy implications and is particularly relevant to current discussions for reforming the housing finance system.

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The control group in the Tulsa study may have benefited as well from the screening of suitable mortgage products by the sponsoring agency. This information was not collected as part of the study but it would be interesting to learn more about the interest rate and payment terms of the mortgages used by homebuyers as well as home equity data, foreclosure and default experience, and subsequent timing of sales. This would help determine if there were other impacts related to economic well-being generated by program participation beyond the dichotomy of owner or renter.

While both the treatment and control groups ended up with relatively high rates of homeownership, the IDA experience

[7] Rademacher, Wiedrich, McKenan, Ratcliffe, and Gallagher (2010).

[8] Collins and O'Rourke (2011); Hirad and Zorn (2002); Quercia and Spader (2008).

may have triggered other worthwhile outcomes. For example, one of the study's results that deserves emphasis is how the intervention accelerated the timing of the purchase among the treatment group. Even if the control group caught up, IDAs helped participants become homeowners faster. The program helped them raise the downpayment and it got them into the homebuying pipeline sooner. This is a distinct issue from the question of duration and how long people were owners. This is important for a variety of reasons: homes often allow families to take advantage of other neighborhood amenities, such as good schools and public services, can lead to forced savings as mortgages are paid off, or facilitate access to other opportunities.

Another finding of the study is that the IDA experience may have worked more effectively for families with higher incomes in the sample. For the above median income group (above $15,840), i.e., those who were not quite as poor, the positive impact was statistically significant. The paper indicates that this might be understood as a chance finding (and explains why this might be so), but it may be indicative of a meaningful relationship. Often families a little higher up the income scale are best positioned to benefit from an intervention.

Beyond the Study

While both the treatment and control groups made significant gains, some of the conditions which allowed the control group to catch up have likely changed. With any study of this type, there is always interest in more data. And because it is not readily available, it is advisable to consider the findings within the context of other research. In the case of IDAs, we can compare the Tulsa study to other work, including the Learn$ave experiment in Canada and many non-experimental studies of matched savings. Assessment of this growing body of work reflects the potential for IDAs to impact many program participants in positive ways.

Of course, we do want to know what an intermediary can do with its limited resources. If an agency can move their clients toward responsible homeownership in ways that cost less than an IDA program, maybe this is where they should be spending their resources. This is an important question for practitioners and policy types to consider, and it may support thinking about how IDA-type savings programs interact with other supports or other objectives. For instance, it may justify smaller match rates, longer periods of savings, or an expanded menu of eligible uses.

Recent experience has also shown that homeownership is not a successful economic development strategy for all families. It works for some, but there are real risks and gains can be lost. Of course, the Great Recession has brought changes to the housing sector and there are large uncertainties as to what the homebuying process will look like in the future. For many aspiring families it is likely to become an extended process, one where saving towards a downpayment will matter more than it has in the recent past.

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In some ways, this reinforces the value of an IDA program. But it also supports the concept of expanding the ways we help families move forward in their lives. In recent years, a growing body of evidence has linked savings with access to post-secondary education, family stability, and economic mobility.[9] This study can help us move beyond a limited focus on homeownership and toward a consideration of the connections between savings and these other desirable

[9] Elliott and Beverly (2010); Cramer, O'Brien, Cooper, and Luengo-Prado (2009).

socio-economic outcomes. It may be an appropriate time to allow the IDA approach to evolve to include a wider array of objectives.

We need a policy agenda which recognizes that families have multiple savings needs. Families must be able to accrue resources for the long haul but they also benefit from having access to precautionary savings. When even small levels of savings are available, families are in a better position to withstand shifts in income and financial shocks. Current policy, however, does a poor job of creating savings opportunities for many lower income families. Consequently, I would like to see greater policy efforts that support savings for other purposes, including but not limited to retirement and education. I think many families would benefit from having access to small pools of savings that they could access flexibly when emergencies arise.

In this respect, a matched savings approach modeled on IDA accounts has some advantages as a policy mechanism to support increased savings. In contrast to using tax breaks, it offers an incentive in a direct and meaningful way. It gives people exposure to the savings experience that may help them build up the savings habit. And when delivered by a trusted and capable intermediary, it can potentially provide a connection to an array of other valuable services.

Subsequently, there should remain interest in interventions that use this matched approach, perhaps with objectives beyond home ownership. For instance, there is rising interest in conditional cash transfer models in both the U.S. and abroad.[10] This will take us into a policy terrain that extends well beyond IDAs as they have been traditionally implemented and towards a focus on identifying effective policies that support savings for diverse needs.

In an ideal world, the same rigorous approach taken with the design and evaluation of the Tulsa experience would be applied more often in a range of policy areas. Unfortunately, many current policies, such as those focused on retirement savings delivered with large-scale tax expenditures, have not been assessed in this manner. Little is known about their effectiveness with respect to their cost or if there are less costly alternatives. It does seem that a higher standard is often set for policies aimed at those lower down the economic ladder. Regardless, we should use this study, supplemented by other research and knowledge of changing conditions in the field, to inform the development of additional interventions to support increased savings for families with lower incomes and fewer resources. These are likely to be investments that generate real-world returns.

[10] Zimmerman and Holmes (2011).

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