



Weathering the Storm

Have IDAs Helped Low-Income Homebuyers Avoid Foreclosure?

Ida Rademacher
and Kasey Wiedrich, CFED



Signe-Mary McKernan, Caroline Ratcliffe
and Megan Gallagher, The Urban Institute



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I. Introduction

Homeownership rates among low-income Americans reached historic highs in the middle part of this decade, extending the realization of the American dream to millions more low-income families than ever before. The rise in homeownership was widely viewed as a positive trend, largely because homeownership has traditionally been the primary means through which low-income households build wealth. Homeownership is also associated with a host of positive social outcomes relating to health and well-being, civic engagement, employment stability, and children's educational performance.

But as the recent subprime and foreclosure crisis has shown, homeownership is by no means a risk-free proposition or a guarantee that individuals who become homeowners will remain homeowners and build wealth. Low-income homeowners have a high likelihood of returning to renting, and many factors come into play in determining whether homeownership is ultimately a wealth-building strategy (Boehm and Schlottmann 2004; Reid and Laderman 2009; Shlay 2006). In addition to length of tenure, other variables that appear to impact whether homeownership leads to wealth

accumulation are the use of a down payment, the type of mortgage instrument used to finance the purchase, and the appreciation rate for the property over time (Bostic and Lee 2008; Schlay 2006; Turner and Luea 2009).

Individual Development Account (IDA) programs incorporate several elements that are associated with successful homeownership outcomes. IDAs are matched savings accounts designed to help low-income families save and build assets. At the time of withdrawal, IDAs provide matching funds, typically \$2 for every \$1 saved, if they are used by the saver to purchase appreciable assets, such as a home, a business, or higher education. IDA programs for homebuyers include these elements:

- Savings incentives in the form of matching funds that can be used along with personal savings as a down payment,
- Financial education and prepurchase homeownership counseling, and
- Oversight and guidance in choosing affordable, nonpredatory mortgage products.

Congress has provided federal funding for IDAs in recent years after the passage of the Assets for

Independence Act (AFI) in 1998. Since then, more than 6,000 individuals have used AFI funds to help finance a home purchase (U.S. DHHS, n.d., 53).

This study examines whether IDA homebuyers have better homeownership outcomes than other low-income households. Our hypothesis is that IDAs help create sustainable homeownership opportunities because they provide the structure and the support necessary for low-income households to succeed. The research is designed to provide insight and answers to the following questions:

- What are the economic and demographic characteristics of IDA homebuyers? In what ways are they similar to and different from other low-income homebuyers?
- What loan terms do IDA participants receive? How do these compare with loan terms for other low-income homebuyers?
- What are foreclosure rates among IDA homebuyers? How do these compare with foreclosure rates among other low- and moderate-income homebuyers?

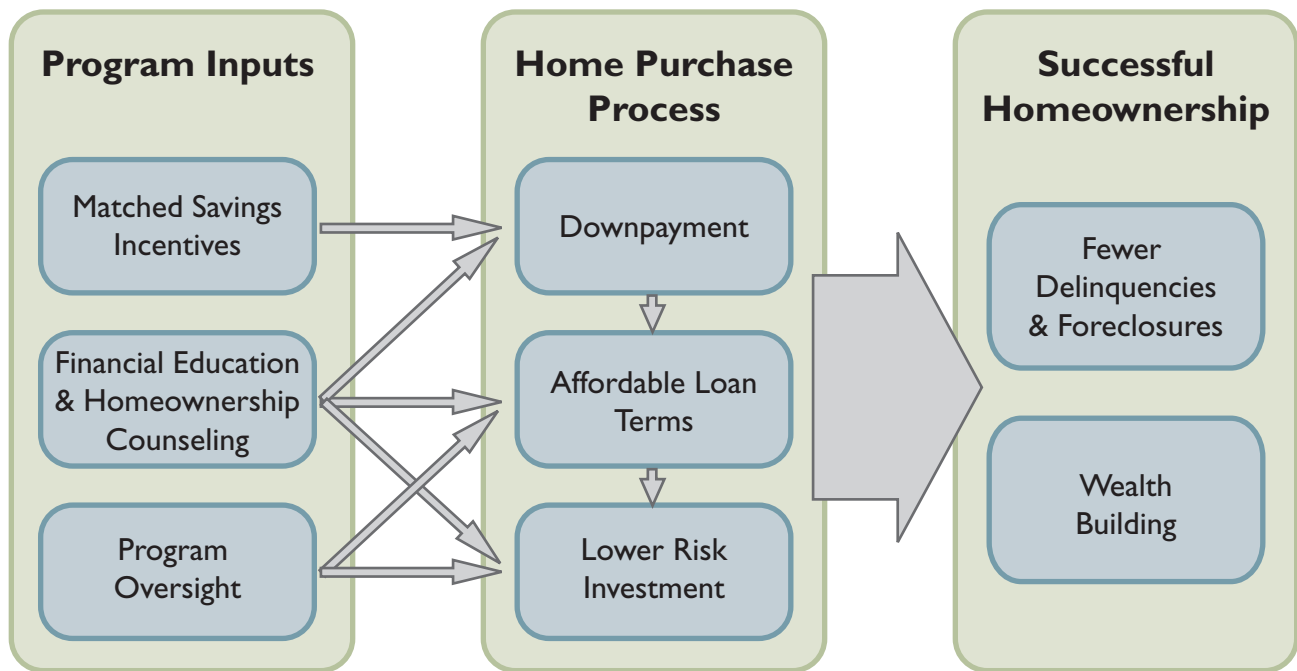
To answer these questions, we worked with six IDA programs across the country to construct a dataset based on administrative records of 831 individuals who purchased homes with IDA funds between 1999 and 2007. We conducted property searches in March and April 2009 to verify the current homeownership status of the sample (e.g., if homebuyers were still in their homes, had defaulted on their mortgage, or had foreclosed). We compare loan terms and foreclosure outcomes for the IDA homebuyer sample to comparison groups of other low-income homebuyers who purchased homes in the same counties and during the same time period. The comparison groups are constructed from Home Mortgage Disclosure Act (HMDA) data and from mortgage performance data obtained from NeighborWorks America.

IDA homebuyers in our sample were significantly more likely to be minority and female than all low-income homebuyers who purchased homes in the same geographies over the same time period. Yet, the IDA homebuyers were much less likely to obtain high interest rate mortgage loans. Our most important result is that IDA homebuyers were far less likely to face foreclosure than the comparison group. Foreclosure rates for IDA homebuyers were one-half to one-third the rate for other low-income homeowners in the same communities.

The findings suggest that participation in an IDA program with its related services and restrictions can improve homeownership outcomes for low-income households. One caveat is that since IDA participants self select into the program, IDA homebuyers are not a random sample of all low-income homebuyers. That is, IDA homebuyers may be people who are more likely to be successful homeowners even without participation in the IDA program. While this is a possibility, our analysis shows that IDA homebuyers are more likely than other low-income homebuyers to be minority and female, two groups that generally have subpar rates of successful homeownership. Also, the magnitude of the difference in outcomes between IDA homebuyers and other low- and moderate-income homebuyers indicates that IDA participation contributed to better homeownership outcomes.

The remainder of this paper is organized into the following sections. Section 2 provides an overview and conceptual framework that explains the design of IDA programs. Section 3 introduces the study methodology and the datasets that are used in this research. Section 4 presents the research findings and analysis for each of the main research questions, and section 5 concludes the paper with a further discussion of the findings and implications for policy.

Figure 1: Conceptual Framework
How IDA Programs Can Affect Homeownership Outcomes



II. Background and Conceptual Framework

The literature suggests that participating in an IDA program increases homeownership (e.g., Mills, Gale, et al. 2008; Mills, Lam, et al. 2008) but does not provide evidence on whether IDA programs promote successful homeownership. IDA programs are hypothesized to support and promote successful homeownership and wealth building through three primary mechanisms: (1) the matched savings incentive, (2) financial education and homeownership counseling, and (3) program oversight (Figure 1). We discuss these three mechanisms in turn below.

Matched Savings Incentive

Program matching funds create an incentive to participate in an IDA program and to save once in the program. Participants save on a monthly basis and are generally in the program for 18 months to three years. They receive a match for

every dollar saved if the savings are used for first-time homeownership or another approved asset purchase. The combined participant savings and program match likely increase the down payment on a home.¹ An increased down payment is hypothesized to make homeownership more likely because not having enough wealth to finance a down payment is typically the largest constraint on homeownership for low-income families (Galster and Santiago 2008). It should also make homeownership more successful. A larger down payment increases initial home equity and may result in more affordable loan terms, which should, in turn, lead to fewer delinquencies and foreclosures and increased wealth. Bostic and Lee (2009) simulate wealth gains from homeownership versus renting and find that the extent of the wealth gain is a direct function of the initial down payment. They conclude that “homeownership is clearly a more valuable asset-building tool if a household is able to acquire home equity early in the tenure of homeownership” (236).

Program matching funds incentivize homeownership and may make homeownership available to people who otherwise would not buy a home. Conceptually, this increase in homeownership could result among people ready for homeownership (e.g., with stable employment) and people not ready for homeownership (e.g., without stable employment). As a result, IDA programs could induce both good and bad homeownership outcomes among participants, resulting in increased delinquencies and foreclosures for some. We expect the good outcomes to dominate because homeownership counseling provided by IDA programs (and discussed in the paragraph below) should help programs identify which individuals would be successful homeowners and discourage individuals not ready for homeownership from buying. IDA programs may also improve participant outcomes if the program counseling convinces participants who incorrectly thought they were ready for homeownership to postpone or not purchase.

Financial Education and Homeownership Counseling

IDA programs require participants to attend financial education classes and many also require asset-specific counseling, such as homebuyer counseling. All six programs in our study require both, either in a classroom setting or through one-on-one counseling. General financial education covers credit and credit repair, which could lead to higher credit scores at the time of the home purchase. Homeownership counseling, on the other hand, outlines the basic steps of home purchasing and qualifying for a loan.

Financial education and homeownership counseling are hypothesized to reinforce savings behavior and thus increase down payment. They are also hypothesized to improve the risk profile of participants over time, ultimately enabling them to qualify for better loan terms and thus a lower-risk

investment. Longitudinal research on IDAs shows that program participation significantly increased the clearing of old debts as compared to a control group after 18 months (Grinstein-Weiss et al. 2008). In general, the literature finds positive relationships between financial education and participant savings, as measured by average monthly net deposits (Clancy, Grinstein-Weiss, and Schreiner 2001; Schreiner and Sherraden 2007a; Zhan 2003) with potentially diminishing returns to financial education after 10 to 12 hours (Schreiner, Clancy, and Sherraden 2002). The literature also suggests that prepurchase homeownership counseling reduces the probability of default, especially if delivered one-on-one (Galster and Santiago 2008).

Program Oversight

IDA programs monitor the specific uses of program match funds for home purchases and other asset purchases. Although restrictions vary across IDA programs, many place restrictions on loan types and terms. For example, one of the programs in the study restricts debt-to-income ratios, loan types, terms, fees, housing prices, and sometimes neighborhood. Two programs began to require fixed rates or affordable loans in response to the rise of predatory and subprime loans in 2006. A few of the programs do not have written requirements, but one did issue guidelines in 2005 and others rely on their relationships with participants and their educational components to steer participants toward smart choices. Some of the programs also offer loan products or have relationships with lenders who offer loans and additional down payment assistance products to participants. Participants are not required to use these products, but they are intended to provide affordable options for interested participants. This program oversight may be an important component of IDA programs. Recent analysis of HMDA and loan performance data in California suggests that mortgage market channels play an important role in the likelihood of receiving

a higher-priced loan and ending in default. Black and Hispanic homebuyers in California had access to very different mortgage markets – markets that resulted in higher-priced loans – as compared with white homebuyers in California (Reid and Laderman 2009). IDA programs may provide access to alternate mortgage markets with lower-priced loans.

Contact with program staff and necessary review and approval of loan terms prior to release of matching funds provide additional guidance and oversight. This program oversight is hypothesized to increase the likelihood that a participant receives affordable loan terms (reducing the likelihood of predatory lending) and to lower property risk investment.

Overall, we hypothesize that participation in an IDA program, with its matched savings incentive, financial education, homeownership counseling, and program oversight, will lead to a down payment that starts participants with equity in the home, more affordable loan terms, and a lower investment risk, which in turn lead to fewer delinquencies and foreclosures. This should increase the odds that homeownership will in fact build wealth in a low-income population.

The literature brings empirical evidence to bear on some of these hypotheses and this paper contributes further. Previous studies have found a positive relationship between IDA program participation and homeownership rates though no statistically significant relationship between IDA program participation and net worth, at least in the first three to four years after participation (e.g., Mills, Gale, et al. 2008; Mills, Lam, et al. 2008; Schreiner and Sherraden 2007b). This study contributes to the literature by examining the relationship between IDA program participation, loan terms, and homeownership success, as measured by foreclosure rates. No other study (known to the authors) has looked at these outcomes.

III. Data and Methods

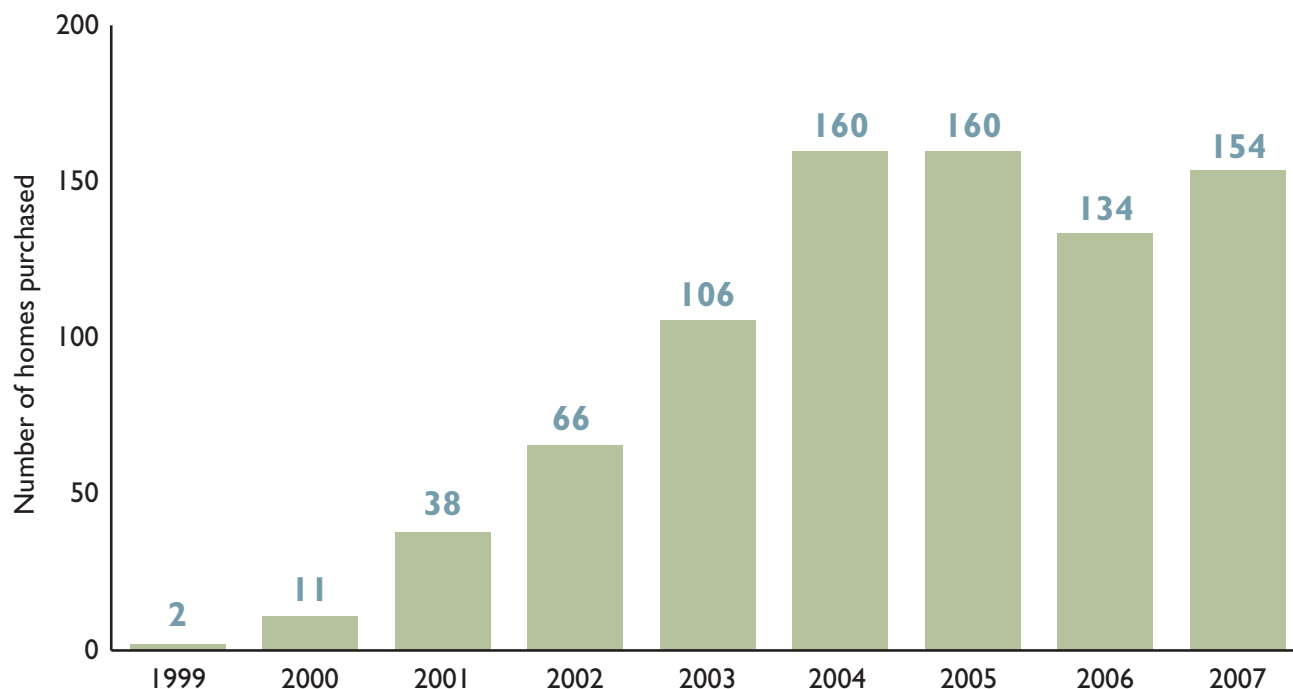
Our analysis relies on three main sources of data. First, we have data on a sample of IDA homebuyers, including program and outcome information. In addition, we construct comparison samples from HMDA data and mortgage performance data obtained from NeighborWorks America. These three sources of data are described in turn below.

IDA Homebuyer Dataset

Data on IDA homebuyers were collected from six IDA programs located in six states: California, Indiana, New Hampshire, North Carolina, Ohio, and Texas.² Each IDA program provided us with administrative data that include demographic characteristics, income, information identifying the purchased property, and mortgage loan characteristics for IDA participants who purchased homes with an IDA between January 1999 and December 2007. One limitation is that not all information fields are available for all homebuyers, particularly data on mortgage loan type and terms, as most of the programs had not been tracking that information independently. The final sample, after removing records with a missing purchase date or location, consists of 831 homeowners who purchased homes in 17 states between 1999 and 2007. The number of IDA homebuyers in the six programs increased steadily from 1999 to 2004 and ranged between 134 and 160 home purchases in each of the subsequent years (Figure 2). Using the identifying information provided by the programs, we conducted online searches of county public records in March and April 2009 to verify if homeowners were still in their homes, had defaulted on their mortgages, or had foreclosed. The homeowner status was verified for 803 of the 831 IDA homebuyers.³

The six IDA programs were selected based on number of homeowners, geographic diversity, and access to public records in their service area. The IDA programs are all large, well-established

Figure 2: Number of Homes Purchased by IDA Homebuyers, by Year



Source: Authors' tabulations of IDA program data.

programs with an average of 139 homeowners per program in the sample. Three of the programs are affiliated with NeighborWorks America, a national network of community-based nonprofits that focus on community revitalization and the production of affordable housing. Additionally, three programs are community development financial institutions (CDFIs) – private financial intermediaries identifying and investing in opportunities to benefit low-income and low-wealth people. Half of the programs operate as stand-alone IDA programs – they manage all elements of the program in-house – and half operate as collaboratives – arrangements of several organizations working together with responsibility for different aspects of the program, such as recruitment, case management, or account management. Homeownership was the primary focus of the majority of the programs; in five of six programs, between 50 percent and 100 percent of all IDA participants were saving for homeownership

rather than other potential uses such as small business or education.

Program elements varied slightly between the six programs, but all contained the basic elements of matched savings, financial education, and homebuyer training. Match rates varied between and within programs, but the most common match rates were 2:1 and 3:1. In each of the programs, participants were required to attend general financial education classes that covered topics such as budgeting, credit and credit repair, and goal setting. Each participant wanting to use her or his IDA to purchase a home was also required to attend homeownership training, which ranged from a maximum of 10 hours, held for two hours per week for five weeks, to a minimum of one two-hour training. In addition, many of the programs offered one-on-one counseling, and a few of the programs required ongoing counseling, from

a minimum of one session to monthly sessions with a counselor. Programs that did not offer homeownership counseling in-house provided referrals to local NeighborWorks organizations or other homeownership counseling providers.

Participants in IDA programs make a conscious decision to apply for the program (i.e., they are a self-selected group) and then go through a screening process before they are accepted into the program and can begin saving. Thus, our data are not a random sample of low-income homebuyers. Generally, participants are aware of and apply to IDA programs through relationships they have with the organization or one of its partner organizations, typically as a client or an employee. For example, the program in Austin, Texas (Foundation Communities), primarily recruits IDA participants from the tenants of the rental properties it manages. Even if a program is open to the public, potential participants often become clients of the organization or its partners. Eligibility for an IDA program is based primarily on income, and in most programs, participants are eligible if their earned income is below 200 percent of the federal poverty level. However, some programs have funds that allow individuals to participate if they have incomes as high as 60 percent or 80 percent of area median income. Other eligibility criteria include a screening to ensure that applicants are able to meet their basic needs on their income or a credit check to determine if applicants' credit issues can be resolved during their time in the program.

Comparison Datasets

We use two data sources to compare IDA homebuyers with other low-income homebuyers. HMDA data are used to compare demographic characteristics and loan terms. Data obtained from NeighborWorks America on mortgage performance are used to compare foreclosure rates. The two data sources are necessary for the analysis because the

HMDA data do not include foreclosure information and the mortgage performance data do not provide homebuyers' demographic characteristics. For both the HMDA and mortgage performance data, we use the available information to construct comparison samples that include homebuyers who are similar to our IDA homebuyer sample. We conduct comparisons between homebuyers in the IDA sample and the two comparison samples by calculating summary statistics of homebuyer and loan characteristics in each of the datasets. We also ran statistical tests to assess whether differences between the IDA and HMDA groups and the IDA and mortgage performance data groups are statistically significant.⁴ The next sections describe each of these data sources, along with the criteria we used to construct the comparison sample.

Home Mortgage Disclosure Act Data

The HMDA data are used to describe the demographic characteristics of low-income homebuyers and the terms of their loans.⁵ We use HMDA data from 1999 through 2007, which matches the home purchase dates of homebuyers in our IDA sample. HMDA data include homebuyers' gender, race, ethnicity, and income at the time the loan is originated. These data also provide information on homebuyers' basic loan characteristics including loan amount, loan type, and whether the loan has a high interest rate. Four loan types are identified in the data: conventional, FHA insured (Federal Housing Administration), FSA/RHS guaranteed (Farm Service Agency/Rural Housing Service), and, VA guaranteed (Veteran Administration). The benefit of FHA, FSA/RHS, and VA loans over conventional loans is that they can carry lower interest rates and down payments for first-time homebuyers.

Since 2004, the HMDA data identify high interest rate loans by flagging rates that are 3 percentage points higher than the prime rate for primary mortgages. This flag is often an indicator of a

subprime loan.⁶ Prior to 2004, the HUD subprime list is generally used to identify loans from banks with disproportionate shares (at least 50 percent) of subprime loans. While the subprime list does not specifically identify subprime loans, it does indicate loans that are more likely to be subprime. In our analysis, we examine two measures that approximate subprime loans in the HMDA data: (1) percent of loans identified as high interest rate loans using data from 2004 to 2007 and (2) percent of loans from banks with a disproportionate share of subprime loans from 1999 to 2007.⁷

To provide a comparison group for our IDA homebuyers, we select loans from HMDA that originated in the same counties and in the same years as the IDA home purchases.⁸ For each year represented in the IDA homebuyer sample, we keep HMDA loans from only those counties in which IDA homebuyers purchased homes. We further limit the sample to loan originations for purchase of owner-occupied one- to four-unit homes. These limitations are made to create a close comparison to the IDA homebuyer sample, which does not include refinances, investment properties, or manufactured or multifamily properties.

Since the IDA homebuyer sample is a relatively low-income sample, we limit the HMDA sample to homebuyers with incomes below 250 percent of the federal poverty level (for a family of three). This threshold was chosen to reflect the incomes of IDA participants 18 months to three years after program entry, when most IDA participants in the sample bought their homes.⁹ According to the Assets for Independence Impact Study, real earnings increased by nearly 30 percent between the first and third years of the program (Mills, Lam, et al. 2008, 27). Using these findings, we assume an upward income adjustment of 25 percent from 200 percent of the federal poverty threshold to 250 percent of the federal poverty threshold. Using

this higher income cutoff (250 percent versus 200 percent of the federal poverty threshold) produces a somewhat more advantaged comparison group that is less likely to experience low-quality mortgage products and foreclosures. By erring on the side of a more advantaged comparison group, our results are conservative and may understate the potential benefits of participating in an IDA program.

Together, our selection criteria yield a HMDA sample of 259,922 loans, which we compare to our IDA homebuyers. One caveat is that our IDA homebuyer loans are likely present in the HMDA comparison sample. However, this does not drive the overall HMDA sample characteristics, since IDA homebuyers represent only 0.3 percent of the HMDA comparison sample. In conducting our analysis, we use weights to make the HMDA sample match the proportional representation of each county and year combination in the IDA sample.

Mortgage Performance Data

Foreclosure rates among IDA homebuyers are compared with foreclosure rates among homebuyers in the mortgage performance data obtained from NeighborWorks America. The mortgage data include extensive information on loan and property characteristics as well as the borrower's credit score. We use loan value and credit score to approximate our low-income IDA homebuyer sample. Foreclosure is the outcome of interest. The data provide monthly information on whether individual loans are current, delinquent, in foreclosure, or paid in full.

The mortgage performance data cover a large portion of the overall mortgage market, but they underrepresent subprime loans. As a result, our comparison group likely represents loans from a somewhat more advantaged group of homebuyers, loans that likely have more advantageous terms and lower foreclosure rates than the full population of loans. Using this somewhat more advantaged

comparison group will likely understate the potential benefits of participating in an IDA program on participant foreclosure rates.

To produce a comparison sample for our IDA homebuyer loans, we select loans that originated in the same places and in the same months between 1999 and 2007 as the IDA home purchases.¹⁰ For each month and year combination represented in the IDA homebuyer sample, we keep loans from the comparison data from only those counties in which IDA homebuyers purchased homes. We select loans for first mortgages for purchases of primary residences and create weights to adjust for the proportional representation of each county in each month and year combination in the IDA sample. This yields a sample of 281,655 loans. Data for each loan in this sample appear for the first time during the month of origination and then again monthly until the loan is voluntarily or involuntarily paid off. In this analysis, we examine the rate of loans in the foreclosure process (including presale, post sale, and real estate owned foreclosures) between the date of loan origination and April 2009.

Loans present in the mortgage performance data include homebuyers from across the income spectrum. Identifying loans of low-income homebuyers is difficult because mortgage holders' income is not available in the file. Loan amount and homebuyer FICO score are available, however, and we use these together to proxy homebuyer income. Loan amount and FICO score are assumed to reflect homebuyers' income via their purchasing power and credit limitations, respectively. We use both because while loan amount alone likely reflects purchasing power well in the IDA sample (which is known to be low income), it likely reflects it less well in the mortgage performance data. This is because some low loan amounts in the mortgage performance data could be from higher income families who have large down payments (e.g., from high levels

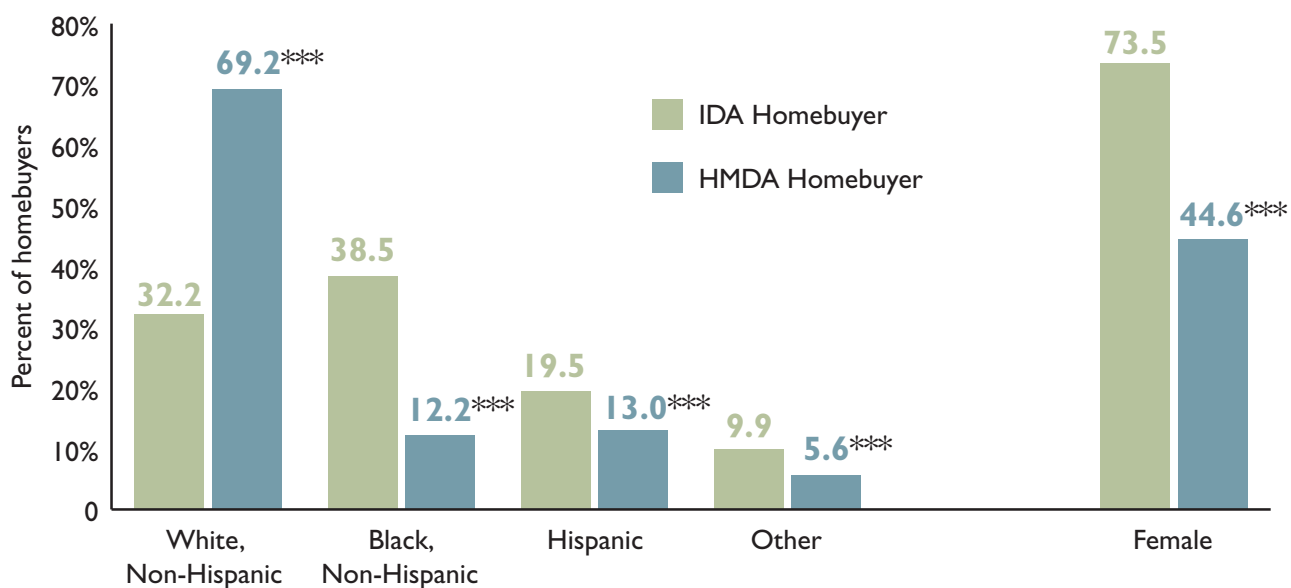
of saving or rolling over equity from a prior home). We construct three comparison groups from the mortgage performance data, which likely provide an upper and lower bound for the income of the comparison sample, and thus, the overall findings. First, we select homebuyers with loan amounts that fall below the 95th percentile in the IDA homebuyer sample, which is \$390,000. Using a loan amount cutoff at the upper end of the IDA homebuyer sample for the comparison group generates a relatively advantaged comparison group (relative to the IDA homebuyer sample), and thus provides a conservative estimate of the potential benefits of participating in an IDA program on foreclosures. To move toward a somewhat less advantaged comparison group, we select homebuyers with loan amounts below \$390,000 who also have FICO scores below 680.¹¹ These criteria limit the mortgage performance comparison sample to 230,060 and 215,029 loans, respectively. We create a third comparison group that further limits the sample by loan amount and examines foreclosures among homebuyers with loan amounts that fall below the mean loan amount for IDA homebuyers (\$130,000) and who also have FICO scores below 680.¹² Using this lower loan amount cutoff, which limits the comparison sample to 77,353 loans, provides an upper-bound estimate of the potential benefits of participating in an IDA program on foreclosures.

IV. Results

What are the economic and demographic characteristics of IDA homebuyers? In what ways are they similar to and different from other low-income homebuyers?

The IDA participants in this sample were predominantly minority, female, and low income. As demonstrated in Figure 3, 32 percent of homebuyers were white, while nearly 40 percent

**Figure 3: Low-income Homebuyers' Demographic Characteristics
Comparison of IDA and HMDA Homebuyer Samples**



Source: Authors' tabulations of IDA program data and HMDA data.

Notes: The race/ethnicity comparison is based on 771 IDA homebuyers and 239,127 HMDA homebuyers. The gender comparison is based on 780 IDA homebuyers and 245,216 HMDA homebuyers. We use a chi-squared test and a t-test to test whether the IDA homebuyer race and ethnicity (chi-squared test) and gender (t-test) are statistically significantly different from the HMDA homebuyers. * $p < .10$, ** $p < .05$, *** $p < .01$

were African American and 20 percent were Hispanic. Almost three-fourths of the IDA participants were female.¹³ IDA participants' incomes were recorded at the time they entered the IDA program, and the median annual income was \$25,440. While our sample of IDA homebuyers is not a random sample of IDA participants, its demographic characteristics generally match those of the overall population of IDA participants. According to the fiscal year 2007 Report to Congress for the Assets for Independence Program – which is the largest source of funding for IDAs in the United States and also the largest source of data on programs and participants – 73 percent of IDA participants are minority, 75 percent are female, and 50 percent enter the program with incomes below 150 percent of the federal poverty level, or \$25,755 (U.S. DHHS, n.d., 14 and 53).

A comparison of IDA homebuyers and low-

income HMDA homebuyers yields a number of socioeconomic differences between the groups. IDA participation appears to expand homeownership opportunities to less advantaged groups, specifically minorities and women.¹⁴ White homebuyers make up only 32.2 percent of the IDA sample, but they represent 69.2 percent of the low-income homebuyers in the HMDA sample. The proportion of African American homebuyers in the IDA sample is over three times higher than in the HMDA sample, and for Hispanic homebuyers, the proportion is 1.5 times higher. Similarly, 73.5 percent of the IDA homebuyers are female compared with 44.6 percent of the HMDA sample (Figure 3).

Due to the place-based nature of IDA programs and their mission-driven focus on reaching underserved populations, it is not surprising that many of the participants are minority or female. The IDA programs are serving a population that was more

likely to enter the subprime mortgage market. In 2006, African American and Hispanic borrowers were more than 3 and 2.6 times as likely as white borrowers, respectively, to receive a high-cost home purchase loan (Avery, Brevoort, and Canner 2007). Other research has found that women are 32 percent more likely than men to receive a subprime mortgage (Fishbein and Woodall 2006).

What loan terms do IDA participants receive? How do these compare with loan terms for other low-income homebuyers?

Our analysis of loan terms comes from comparisons of the IDA homebuyer sample and the low-income HMDA sample. It is important to note that the source of the loan characteristics differs across the two samples. Loan terms for the IDA homebuyers come from administrative records that were recorded by IDA program staff and were collected primarily from loan documentation required from participants at the time of purchase. The loan terms in the HMDA sample come directly from the lending institutions. Comparisons of these two samples suggest that IDA homebuyers receive better loan terms than other low-income homebuyers. This holds even though the loan values are substantively the same across the two samples; the median loan was \$92,250 for IDA homebuyers and \$94,000 for HMDA homebuyers.

Our analysis suggests that IDA homebuyers are less likely to receive conventional loans and more likely to receive government-insured loans, as compared with other low-income homebuyers (Table 1). Among IDA homebuyers, 40 percent received a government-insured loan (60 percent received a conventional loan), compared with only 15 percent of HMDA low-income homebuyers. As mentioned above, government-insured loans can benefit first-time homebuyers by providing lower interest rates and requiring lower down payments. For both samples, FHA-insured loans are the most

Table 1: Low-income Homebuyers' Loan Type and Characteristics Comparison of IDA and HMDA Homebuyer Samples

	IDA Homebuyers	HMDA Homebuyers
Loan Amount		
Median Amount	\$92,250	\$94,000
Loan Type		
Conventional	59.8	84.7***
FHA Insured	29.8	13.5***
VA guaranteed	0.9	1.4***
USDA (FSA/RHS)	9.6	0.4***
Loan Characteristics		
High Interest Rate	1.5	19.6***
Subprime	0.2	9.3***

Source: Authors' tabulations of IDA program data and HMDA data.

Notes: Among the 831 IDA homebuyers, loan amount, loan type, and a subprime indicator are available for 420, 554, and 554 IDA homebuyers, respectively. The HMDA sample includes 259,922 homebuyers for each of these variables. The high interest rate comparison is limited to homebuyers who purchased their homes between 2004 and 2007 (vs. 1999 to 2007) because HMDA only began reporting high interest rates in 2004. The high interest rate comparison is based on 402 IDA homebuyers and 165,247 HMDA homebuyers. We use t-tests and chi-squared tests to test whether the IDA homebuyer loan amount (t-test), loan type (chi-squared test), and loan characteristics (t-test) are statistically significantly different from the HMDA homebuyers. *p<.10, **p<.05, ***p<.01

common type of loan among those who received a government-insured loan. Thirty percent of IDA homebuyers received a FHA-insured loan, as did 14 percent of low-income HMDA homebuyers. Ten percent of IDA homebuyers received FSA/RHS-insured loans. The comparable number for the homebuyers in our HMDA sample is 0.4 percent. Finally, roughly 1 percent of both samples received a VA-guaranteed loan. The higher rates of government-insured loans among IDA homebuyers

could result from several aspects of the IDA program, including homeownership counseling that provides IDA participants with information about different loan options and products.

IDA homebuyers are also significantly less likely than other low-income homebuyers to receive high interest rate or subprime loans (Table 1). Among individuals who bought their homes between 2004 and 2007, only 1.5 percent of IDA homebuyers have high interest rate loans, while the corresponding number for the low-income HMDA sample is 19.6 percent.¹⁵ The better loan terms also hold when looking across the full 1999 to 2007 period. Our analysis of subprime loans shows that 0.2 percent of IDA homebuyers received a subprime loan, compared with 9.3 percent of the low-income HMDA sample. One caveat is that loans in our HMDA sample are flagged as subprime if the loan originated from a lending institution with a disproportionate share of subprime loans (based on HUD's subprime list); the IDA homebuyer measure is based on program reports of whether the loan is a subprime loan.

These differences in loan type and characteristics across the IDA and HMDA samples are large (Table 1), but the comparisons are not exact. Still, the patterns suggest that IDA participants obtained better loan terms – less costly and lower-risk loans – than other low-income homebuyers. Various aspects of the IDA program may contribute to this result, including the financial match (which can increase down payments), access to financial education and homeownership counseling (which can lead to improved credit scores), and mortgage product monitoring. Loan terms are important because they affect homeowner down payment and monthly mortgage payments. Are these more favorable loan terms, higher down payments, and homeownership counseling components actually related to the likelihood of a home foreclosure? To examine

this question, we next determine whether IDA homebuyers have been less likely to have a home foreclosed than other similar homebuyers.

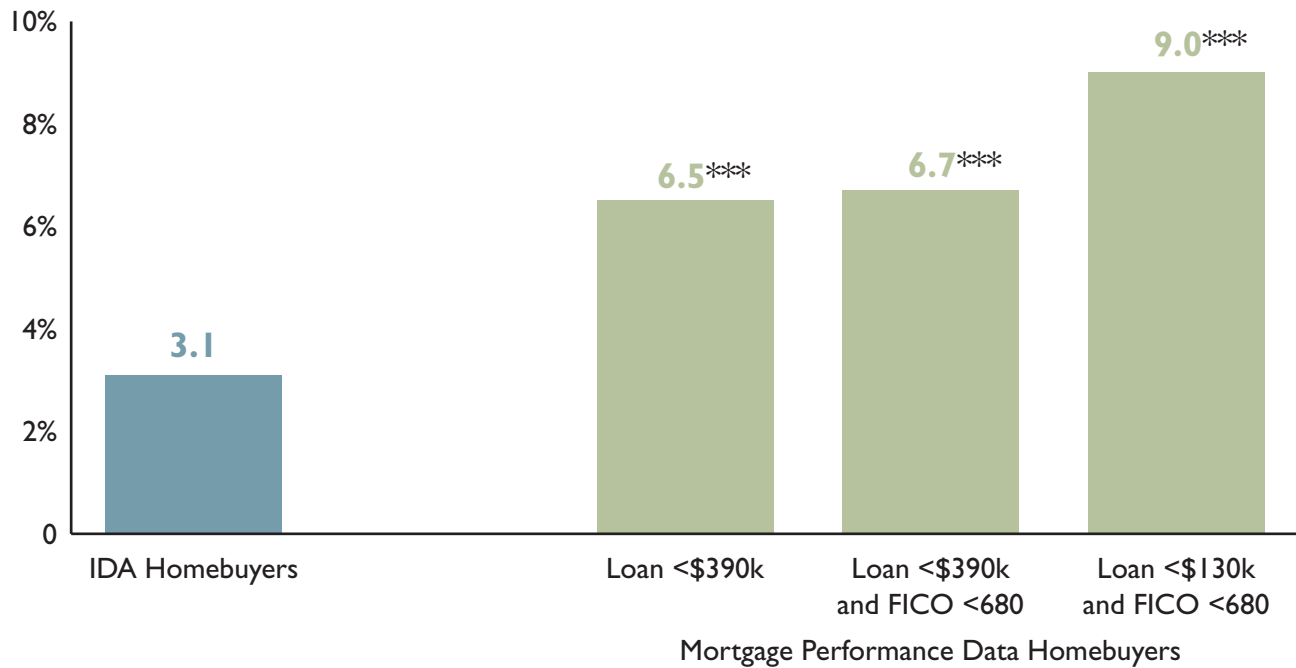
What are foreclosure rates among IDA borrowers? How do they compare with foreclosure rates among other low- and moderate-income homebuyers?

IDA homebuyers experienced low foreclosure rates, only in the 3 percent range. Moreover, this IDA foreclosure rate stands well below the foreclosure rate of any of our three comparison groups. Recall that the three comparison groups are (1) buyers with loan amounts below \$390,000, (2) buyers with loan amounts below \$390,000 and FICO scores below 680, and (3) buyers with loan amounts below \$130,000 and FICO scores below 680.¹⁶

Among our sample of IDA homebuyers – all of whom purchased their homes between 1999 and 2007 – 3.1 percent (or 25 out of 803 homes) entered foreclosure by April 2009 (Figure 4).¹⁷ This foreclosure rate is less than one-half to one-third of the foreclosure rates for the comparison samples. Homebuyers with loans less than \$390,000 had a foreclosure rate of 6.5 percent, more than twice the rate for IDA homebuyers. Adding the FICO score restriction leads to a slightly higher foreclosure rate of 6.7 percent. Finally, comparison data show that loans below \$130,000 with corresponding FICO scores below 680 had a foreclosure rate of 9.0 percent. Thus, each of the comparison samples has statistically significant, substantially higher rates of foreclosure than do IDA homebuyers. In addition to relatively low foreclosure rates for the IDA sample, our property searches reveal that 93 percent of IDA homebuyers have retained their homes with no evidence of problems paying their mortgage as of April 2009.

IDA participation may reduce foreclosures in several ways. First, IDA programs can improve the

Figure 4: Low-income Homebuyers' Foreclosure Rates
Comparison of IDA Homebuyers and Mortgage Performance Data Homebuyers



Source: Authors' tabulations of IDA program data and mortgage performance data.

Notes: The IDA data include 803 homebuyers. The mortgage performance data include (1) 230,060 homeowners with loan amounts less than \$390,000, (2) 215,029 homeowners with loan amounts less than \$390,000 and FICO scores lower than 680, and (3) 77,353 homeowners with loan amounts less than \$130,000 and FICO scores lower than 680. We use t-tests to test whether the IDA homebuyer foreclosure rates are statistically significantly different from the mortgage performance data homebuyers. * $p < .10$, ** $p < .05$, *** $p < .01$

loan terms of mortgages obtained by low-income homebuyers. The better loan terms may result from the financial education, homebuyer counseling, or mortgage product monitoring components of the program. Participants can use their IDA match funds for down payments and may learn about additional sources of down payment assistance, including soft seconds, closing cost grants from Housing Finance Agencies (HFAs), and Federal Home Loan Bank (FHLB) Idea funds. IDA programs can also provide homebuyers with the time they need to build savings and repair credit, which can improve their prospects for buying and keeping a home. Each of these IDA program components can plausibly improve homeownership outcomes, but further research is required to disentangle their distinctive contributions. Still, this study presents a

strong case that IDA programs reduce foreclosures and increase successful homeownership among low-income homebuyers.

V. Conclusion

This study provides the first evidence available on loan terms and foreclosure outcomes of IDA homebuyers. The findings show that the overwhelming majority of IDA homebuyers in the sample accessed prime-rate mortgage products to finance their home purchase. The findings also show that the vast majority of IDA homebuyers have successfully maintained their homeownership status amidst the foreclosure crisis. And while the IDA homebuyers in our study do not represent a random sample of the larger low-income population,

it is still worth noting the stark differences between the loan terms and foreclosure rates of the IDA sample and those of other low-income individuals who purchased homes in the same communities during the same time period. Although our research does not explicitly document housing wealth accumulation among the IDA homebuyer sample, other studies suggest that the likelihood of wealth accumulation through homeownership is highly correlated with loan terms and housing tenure (Boehm and Schlottmann 2004; Shlay 2006; Turner and Luea 2009).

The study findings are consistent with the hypothesis that the services and features of IDA programs (e.g., matched savings, financial and homebuyer education and oversight of or guidance regarding loan products) help low-income populations obtain affordable mortgages and experience successful and sustainable homeownership outcomes. Our study is unable to distinguish between the relative effects that each service and feature of an IDA program contributes to the overall outcome, an important area for additional research.

The study findings have implications beyond IDA programs. Other homeownership assistance programs provide low-income populations with some of the services provided by IDA programs, notably credit and debt counseling and financial education, prepurchase counseling, and various forms of down payment assistance. In the absence of evidence about which specific elements of IDAs do the most to facilitate successful homeownership, it seems prudent to continue to study and support the multiple strategies that demonstrate strong potential to help low-income populations prepare for and succeed in homeownership, including homebuying that leads to wealth building and financial security.

VI. Notes

- 1 The literature finds that maximum match amounts (or match caps) are positively related to increased participant savings, as measured through average monthly net deposits (Han and Sherraden, forthcoming; Schreiner and Sherraden, 2007a). The literature is less clear around the effect of match rates on participant savings. However, the amount individuals have for a down payment (their own IDA savings plus the IDA match) is expected to be higher with versus without participation in the IDA program.
- 2 The six programs are: Opportunity Fund (San Jose, CA), La Casa of Goshen (Goshen, IN), New Hampshire Community Loan Fund (Concord, NH), New Century IDA Program (Forsyth County, NC), WECO Fund (Cleveland, OH), and Foundation Communities (Austin, TX).
- 3 Eleven of the 64 counties in which homes were purchased did not provide free or low-cost online access to public records, which precluded verification of status for 11 homeowners. We were also unable to verify an additional 17 homeowners. Note that two programs conducted some of the property searches themselves, one due to privacy issues and one as a part of the program's normal operating procedures. We verified that program's property searches were conducted in the same manner as those conducted by the research team.
- 4 We ran chi-squared tests to compare the difference in distributions of categorical variables and t-tests to compare the difference in means of continuous variables.
- 5 The Home Mortgage Disclosure Act was enacted in 1975 in an effort to identify discriminatory lending practices. The Act requires mid-size and large lending institutions to report basic information from loan applications. Overall, the HMDA data capture about 80 percent of all loans. HMDA data are less complete in nonmetropolitan areas and counties with small populations because institutions serving these areas are not required to report the geographic location of the property, and some are even exempt from filing under HMDA. While this is a downside of the HMDA data, they are the most complete data available on homebuyers' demographic characteristics and their loan terms. The majority of our IDA homebuyers bought homes in larger counties and metropolitan areas, so our analysis should not be significantly affected by this limitation.
- 6 The high interest rate flag is based on an APR calculation, which takes into account the initial interest rate as well as the subsequent rates on the loan.

- 7 The last HUD subprime list was published in 2005, so we use the 2005 list to identify subprime lenders in 2006 and 2007.
- 8 We cannot match on month and year of home purchase because the HMDA files do not include month, only year, of the loan origination.
- 9 Our IDA homebuyer data set includes only income levels at the time of program entry, while the HMDA data provides home purchasers' incomes at loan origination.
- 10 IDA homebuyers' loans may be present in the mortgage performance comparison sample but will represent such a small proportion they will not drive the overall sample characteristics.
- 11 We limit the sample to homebuyers with FICO scores below 680 because automated underwriting software programs like Fannie Mae's Desktop Underwriter and Freddie Mac's Loan Prospector have used this FICO score as a minimum threshold for conventional first mortgages for borrowers with higher loan-to-value ratios. Fannie Mae Eligibility Matrix, updated on January 14, 2010, accessed on February 10, 2010 (<https://www.efanniemae.com/sf/refmaterials/eligibility/index.jsp>)
- 12 \$133,000 is the mean loan amount in the IDA homebuyer sample.
- 13 Being marked a female does not necessarily mean that it is female-headed household. Gender in the data is not indicative of marital or family status. Whether the IDA was owned by a woman, man or couple depended on how programs maintained administrative data. We did not collect information on household composition or marital status.
- 14 For the IDA sample, race, ethnicity and gender of the IDA participant are reported. This person is presumably on the loan application. In HMDA, race, ethnicity and gender of the primary applicant is reported. Race, ethnicity and gender of the co-applicant is also reported in HMDA but is not used in this analysis.
- 15 As mentioned in the data section, the HMDA data only began to include a high interest rate flag in 2004. To construct a comparable high interest rate flag for the IDA sample, we take IDA homebuyer self reported interest rate and calculate whether that rate was three points above the prime rate at the time of purchase.
- 16 \$390,000 is the loan amount at the 95th percentile in the IDA homebuyer sample and \$130,000 is roughly the mean loan amount in the IDA sample.

- 17 Of the 25 homes that entered foreclosure, 23 homes foreclosed, and two homes received a notice of foreclosure, but there was evidence that they were able to bring their loans current and keep their homes. An additional five homes received a notice of default but did not enter the foreclosure process. One home was sold six months after the default notice.

VII. References

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CFED
1200 G Street, NW
Suite 400
Washington, DC 20005
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