



# **Ten-Year Impacts of Individual Development Accounts on Homeownership: Evidence from a Randomized Experiment**

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# Wealth Ownership in the U.S.

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

(Wolff, 2004)

Millions of people in the U.S. have few or no assets





# Towards Inclusive Policy

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





# What are IDAs?

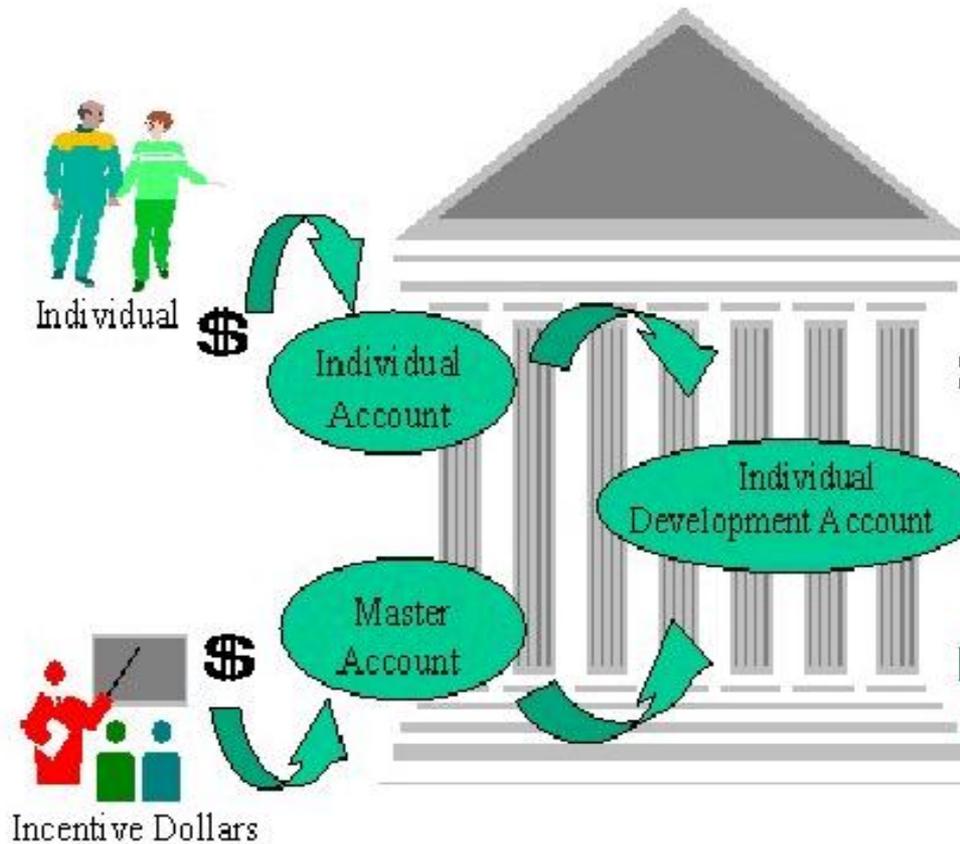
- IDAs are matched savings accounts
- Main uses of IDAs:
  - Home purchase
  - Post-secondary education
  - Micro-enterprise
- Program bundle:
  - Financial education
  - Case management
  - Peer relationships



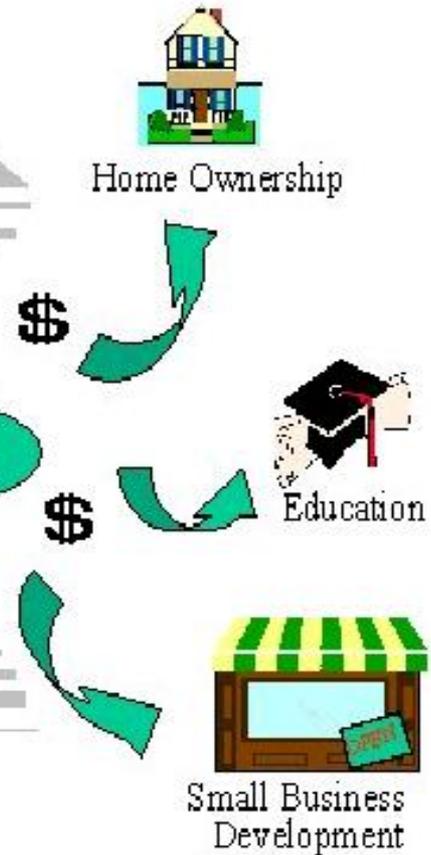


# What are IDAs?

## Contributions



## Uses





# Saving for Home Purchase with IDAs

- 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
- Assists potential homeowners with shopping for the loan that best meets their needs





## Context of IDAs in the U.S.

- IDAs are both popular and have bipartisan support
- Funded by federal, state, and local governments, foundations, financial institutions and private donors
- There are currently about 1,100 IDA projects and more than 85,000 people have participated in IDAs





# Research and Evaluation of IDAs

- American Dream Demonstration (ADD)
- National study of the Assets for Independence IDA program
- State and county level evaluations
- Most studies focus on short-term outcomes
- Most IDA research uses non-experimental methods, e.g. surveys, in-depth interviews, and account activity





## **ADD Experiment – Waves 1-3**

- The only randomized longitudinal experiment of IDAs in the U.S. comes from ADD, conducted in Tulsa, OK from 1998–2003
- Eligibility: Individuals had to be employed, but earning less than 150% of federal poverty level at entry
- Random assignment of 1,103 participants
- Interviews at baseline (Wave 1), 18-month follow-up (Wave 2), and 4-year follow-up (Wave 3)





# The ADD Experiment

- *Treatment group* – allowed to participate in the IDA program and received access to matched saving accounts, financial education, and case management
- *Control group* – 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





# Major Findings on Homeownership Effects

- Findings from Waves 1 to 3 (1998 – 2003) indicate:
  - Positive impact on homeownership
  - Homeownership rates rose rapidly in both groups and increased by about 7% more in the treatment group than in the control group
  - Treatment group was more likely to engage in clearing debt activities as preparation for applying for a home loan





# ADD Experiment Wave 4

- Assessment of the long-term (10 year) impact of IDA programs
- Follow-up with both treatment and control group participants 10 years after random assignment (6 years post-graduation for treatment group)
- Collaboration between UNC, Center for Social Development, and Brookings Institution





## Data Collection for ADD Wave 4

- Conducted by RTI International August 08 – April 09
- Primarily face-to-face interviews, about 60 minutes
- Interviews in the field were conducted at the same pace for treatment and control groups
- 80% response rate





## ➤ Research Question

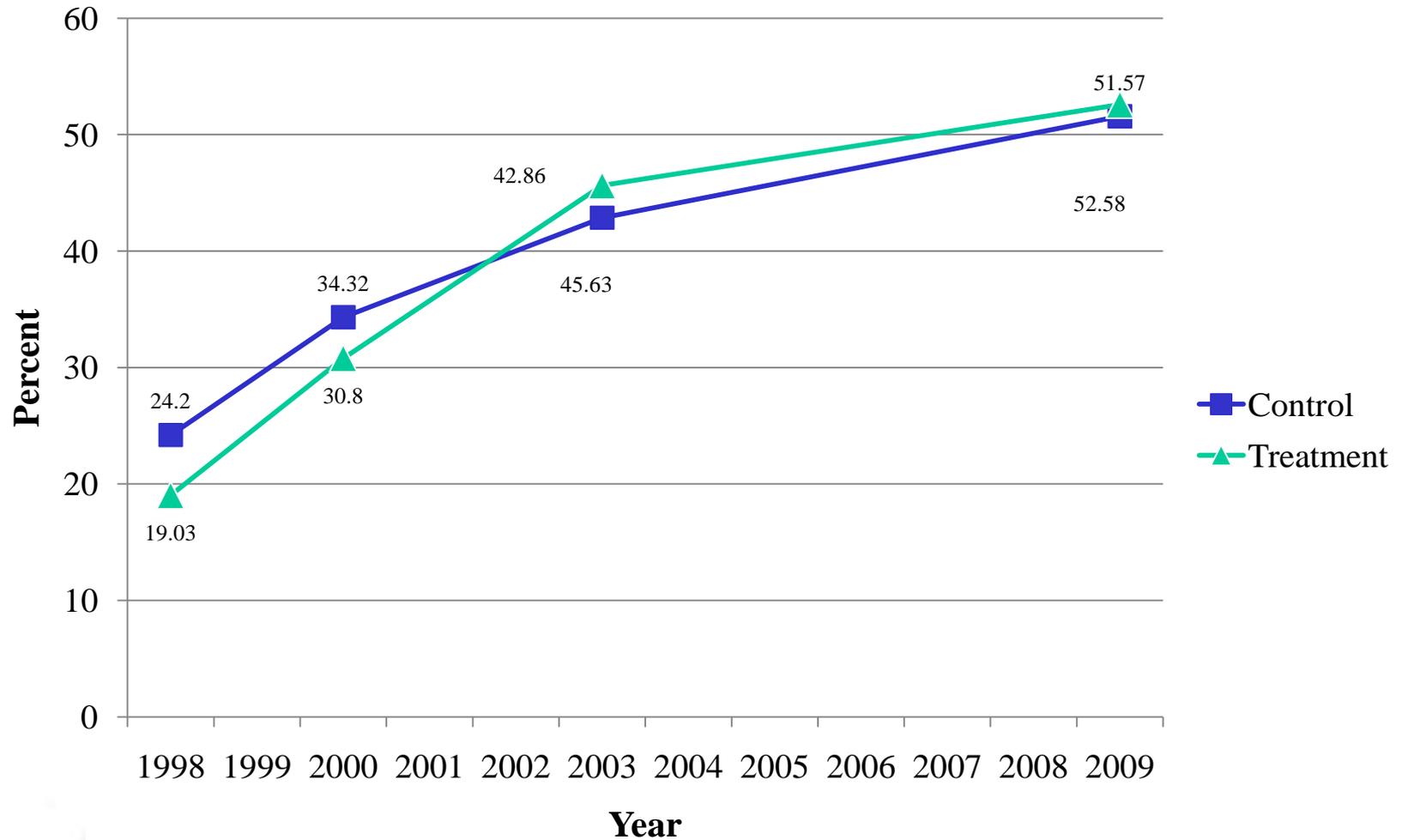
- Do treatment group members, relative to control group members, show an increase in homeownership rate?

## ➤ Conservative Intent to Treat approach





# Aggregate Homeownership Rates (All Respondents)





# Homeownership Rates: Descriptive Statistics

Wave 1 - 4	Treatment Group	Control Group
Raw change in HO rates	34	27
Percent HO difference	176%	113%





# Simple Difference in Difference

	Full Sample				
	Treatment	Control	diff	se	1-tail p
<b>Baseline homeownership</b>	0.212	0.258	-0.046	0.029	0.943
<b>Wave 4 homeownership</b>	0.525	0.516	0.009	0.034	0.397
<b>Wave4 homeownership - baseline homeownership</b>	0.313	0.258	0.055	0.038	0.074
<b>N</b>	852				



# OLS Regression Results

	Control for Covariates			
	No		Yes	
	b/se	p	b/se	p
<b>Treatment Status</b>	0.019	0.283	0.029	0.193
	-0.033		-0.033	
<b>Homeownership W1</b>	0.340	0.000	0.240	0.000
	-0.039		-0.049	
<b>Constant</b>	0.428	0.000	0.172	0.219
	-0.025		-0.140	
<b>N</b>	823		823	

p-values for Treatment status for 1-tail T-tests



# Type of Loans and Loan Performance: Preliminary Results

- 90% of both treatment and control group members held fixed-rate mortgages
- Average interest rate about 6.4% across groups
- Very few cases of delinquency and foreclosure for both treatment and control groups





# Considerations

- Self-selected and very motivated people in both groups
- Period of “easy homeownership”
- Tulsa housing market
- Other financial assistance available in Tulsa
- Crossovers
- Pioneer IDA program





## Discussion

- High increases in homeownership for both treatment and control groups over the 10-years period
- Good mortgage products
- No statistically significant impact on homeownership rates by Wave 4
- Control group members were able to statistically catch up by Wave 4
- Accelerated homeownership for treatment





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