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Homeownership and Individual Development Accounts

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Our social policy system is riddled with inequities. I often focus on the disparities between how we incentivize savings and encourage families to build wealth. While those on the upper half of the income ladder are able to access tax incentives as homeowners and when they contribute to a range of designated accounts, families with lower incomes and fewer resources are largely shut out. This critique was the impetus for creating a new type of account that could incentivize savings for those currently excluded, the Individual Development Account (IDA).

IDAs 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. Over the last 15 years, community groups across the country made IDAs available to their constituents. One of the features of this experience that has been so remarkable is the commitment of IDA proponents to learning from the experience. From the beginning, a thorough research agenda was developed and has produced a growing body of knowledge. In many ways, this is a model for how social policymaking should work. New ideas can be put into action, their impacts assessed, and subsequent approaches can be refined or abandoned. The process is often iterative and takes time, but the nature of social science requires openness to acquiring new information and an ability to place it in context.

A [new study](#) by a team of researchers from Center for Social Development at Washington University in St. Louis, University of North Carolina, and the Brookings Institution offers a new learning opportunity. This research focused on evaluating the ten-year impacts of a specific IDA program in Tulsa, Okla., which was focused on increasing homeownership among low-income families. The is notable in that it used a randomized experimental design, so we are able to compare the experience of a group that received the IDA for three years and those that did not.

The release of this study is an excellent time to take stock of what we have learned from the IDA experience to date and consider the policy implications. To contribute to that process, [I've written a paper](#) that 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' climb up the economic ladder.

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.

Over the long run, both groups did extremely well with respect to homeownership. It seems clear that the IDA program was attractive to participants and helped them become homeowners. 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. Several features of the overall context should be considered as potentially influencing the study's results. Specifically, 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.

It is also worth considering that recent experience has 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. For many aspiring families, homeownership is likely to become an extended process, one where saving towards a downpayment will matter more than it has in the recent past. 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. 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 socio-economic outcomes. This 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.

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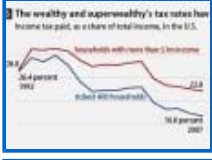


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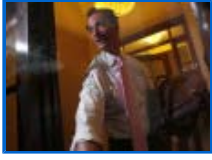
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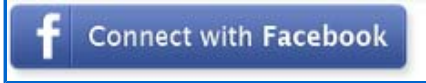


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